

SUBCOMMITTEE No. 4

LEGISLATIVE, EXECUTIVE, JUDICIAL BRANCH, TRANSPORTATION, PUBLIC SAFETY, and GENERAL GOVERNMENT

Transportation

Overview	4-1
California Transportation Commission	4-1
Special Transportation Programs	4-2
Department of Transportation	4-2
High-Speed Rail Authority	4-9
California Highway Patrol.....	4-9
Department of Motor Vehicles	4-10

State Administration

Office of Planning and Research.....	4-11
State Controller.....	4-12
Department of Insurance	4-13
State Board of Equalization.....	4-14
Secretary of State.....	4-17
State Treasurer's Office.....	4-18
Department of Consumer Affairs	4-19
Department of Fair Employment and Housing	4-21
Franchise Tax Board	4-22
Department of General Services.....	4-23
State Personnel Board	4-26
Public Employees' Retirement System	4-26
State Teachers Retirement System	4-26
Department of Technology Services	4-27
Secretary of Business, Transportation, and Housing	4-28
Department of Alcoholic Beverage Control.....	4-29
Department of Financial Institutions.....	4-29
Department of Corporations	4-29
Department of Housing and Community Development.....	4-30
Department of Real Estate.....	4-31
Department of Managed Health Care.....	4-31
California Arts Council	4-32
Department of Personnel Administration.....	4-32
Fair Political Practices Commission.....	4-33
Commission on State Mandates	4-34
Department of the Military	4-35
Tax Relief	4-36
Local Government Financing.....	4-37
Employee Compensation.....	4-39
Augmentation for Contingencies and Emergencies	4-39
Budget Control Sections.....	4-40

SUBCOMMITTEE No. 4

LEGISLATIVE, EXECUTIVE, JUDICIAL BRANCH, TRANSPORTATION,
PUBLIC SAFETY, and GENERAL GOVERNMENT
(continued)

Judicial Branch

Judicial Branch	4-42
-----------------------	------

Public Safety

Office of Homeland Security	4-45
Office of Emergency Services.....	4-46
Department of Justice	4-48
Gambling Control Commission.....	4-49
California Victim Compensation and Government Claims Board.....	4-51
Department of Corrections and Rehabilitation.....	4-51
Commission on Peace Officer Standards and Training.....	4-56

TRANSPORTATION

Overview of the Transportation Budget

The Governor proposes total transportation expenditures of \$14 billion (\$2.3 billion General Fund) in 2006-07. This expenditure figure includes the following departments (\$ in millions):

Department	General Fund	Other Funds	Total
Department of Transportation (Caltrans)	\$2,326,287	\$9,215,567	\$11,541,854
California Highway Patrol (CHP)		1,574,849	1,574,849
Department of Motor Vehicles (DMV)		817,873	817,873
Special Transportation Programs (STP)		235,044	235,044
Office of Traffic Safety (OTS)		85,162	85,162
CA Transportation Commission (CTC)		2,075	2,075
High Speed Rail Authority (HSRA)		1,298	1,298

Proposed expenditures in 2006-07 are \$770 million less than revised 2005-06 expenditures – primarily due to fluctuations in expenditures for the San Francisco-Oakland Bay Bridge project.

2600 California Transportation Commission

The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction of highway, passenger rail, and transit improvements throughout California. The CTC also advises and assists the Secretary of Business, Transportation and Housing Agency and the Legislature in formulating and evaluating state policies and plans for California's transportation programs.

The Governor proposes total expenditures of \$2.1 million for the CTC. The only budget change proposal is the addition of one position to perform workload associated with the Toll Bridge Program Oversight Committee. This workload was added by AB 144 (Chapter 71, Statutes of 2005), which provided funding to finish the San Francisco-Oakland Bay Bridge seismic retrofit project and added additional oversight and reporting activities. The budget also reflects the full expenditure of Proposition 116 (Clean Air and Transportation Improvement Fund) bond funds - \$5.4 million was expended in 2004-05; \$2.0 million was expended in 2005-06; and no funds remain for expenditure in 2006-07.

2640 Special Transportation Programs

The Special Transportation Program (STP) provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation projects. Revenue comes from the sales tax on diesel fuel and a small portion of the sales tax on gasoline.

The Governor proposes funding of \$235 million for Special Transportation Programs – an increase of \$34 million (17 percent) over current-year funding. The increase is due to a higher revenue forecast for related fuel sales tax revenue (including a portion of Proposition 42 revenue). No Public Transportation Account “spillover” revenue is included in this funding, as current law retains the first \$200 million in the General Fund and transfers the next \$125 million for the San Francisco-Oakland Bay Bridge Project. More detail on the spillover revenue is included in the Department of Transportation section.

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The department also has responsibilities for airport safety, land use, and noise standards. Caltrans’ budget is divided into six primary programs: Aeronautics; Highway Transportation; Mass Transportation; Transportation Planning; Administration; and the Equipment Service Center.

The Governor proposes total expenditures of \$11.5 billion (\$2.3 billion General Fund), a decrease of \$900 million (7.2 percent) from the revised current-year budget. The reduction is primarily due to a fall in reimbursed workload tied to fluctuations in expenditures for the San Francisco-Oakland Bay Bridge project.

The proposed Caltrans budget reflects significant expenditure increases in both 2005-06 and 2006-07 relative to the enacted 2005 Budget Act. Federal funding has increased by \$975 million in both years due to enactment in August 2005 of the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which is the federal six-year transportation funding plan. Like the 2005-06 budget, the Governor proposes full Proposition 42 funding, which is estimated to be \$1.4 billion. Additionally, the Governor proposes early repayment of \$920 million (out of \$1.35 billion due in 2007-08) of the Proposition 42 funds borrowed by the General Fund in 2004-05. Lastly, the budget reflects changes related to the San Francisco-Oakland Bay Bridge refinancing plan (AB 144, Chapter 71, Statutes of 2005), which shifts project oversight responsibility from Caltrans to the Bay Area Toll Authority. For this budget, AB 144 results in shifting Bay Bridge expenditures to reimbursed workload. The following three tables summarize the Caltrans budget.

Expenditure by Program (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Aeronautics	\$8,406	\$8,506	\$100	1.2
Highway Transportation	10,937,373	\$9,868,377	-1,068,996	-9.8
Mass Transportation	818,794	1,138,391	319,597	39.0
Transportation Planning	154,622	190,941	36,319	23.5
Administration	341,670	335,639	-6,031	-1.8
Equipment Program*	179,764	(179,148)*	na	na
Total	\$12,440,629	\$11,541,854	-\$898,775	-7.2

* The Administration proposes to change the Equipment Program to a distributed cost system in 2006-07

Expenditure by Category (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Personal Services	\$1,871,905	\$1,832,683	-\$39,222	-2.1
Operating Expenses and Equipment	1,682,718	\$1,414,038	-268,680	-16.0
Tort Payments	41,356	41,356	0	0.0
Debt Service (GARVEE bonds)	72,899	72,899	0	0.0
Local Assistance	2,536,515	3,311,234	774,719	30.5
Capital Outlay - Office Buildings	2,510	44,435	41,925	1670.3
Capital Outlay - Transportation Projects	6,190,387	4,794,209	-1,396,178	-22.6
Unclassified	42,339	31,000	-11,339	-26.8
Total	\$12,440,629	\$11,541,854	-\$898,775	-7.2

Expenditure by Fund Type (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
General Fund	\$1,345,148	\$2,326,287	\$981,139	72.9
Federal Trust Fund	3,362,881	\$3,547,920	185,039	5.5
Special Funds and Bond Funds	4,884,934	3,913,729	-971,205	-19.9
Reimbursements	2,847,666	1,753,918	-1,093,748	-38.4
Total	\$12,440,629	\$11,541,854	-\$898,775	-7.2

Proposition 42 Proposal

The major transportation budget issue annually since 2000-01, has been the transfer of gasoline sales tax revenue from the General Fund to transportation – this funding is also known as the Proposition 42 (Prop 42) transfer. A complete funding history of the program, with transfers and loans, is contained in the following section. For 2006-07, the Governor proposes full Prop 42 funding for transportation, which the Department of Finance estimates will be \$1.4 billion. As required by the Constitution, the funding would be allocated as follows:

- \$678 million for the Traffic Congestion Relief Program (TCRP) projects.
- \$582 million for the State Transportation Improvement Program (STIP)
- \$73 million for the Public Transportation Account (PTA)
- \$73 million for State Transit Assistance to local agencies

As part of his Strategic Growth Plan, the Governor is proposing to amend the Constitution to prohibit any future suspensions of Prop 42 revenues. This means that Prop 42 revenue would always go to transportation, and never be available for transfer or loan for other General Fund expenditures – even in times of economic emergency or hardship. Additionally, the Governor proposes early repayment of \$920 million of the Prop 42 funds borrowed by the General Fund in 2004-05. The allocation of this repayment is statutorily defined; however, the Administration proposes to amend statute to shift more of this early repayment from TCRP and the Public Transportation Account to the STIP and local streets and roads (after full repayment in 2007-08, the allocation would be consistent with current law). The proposed 2006-07 allocation is as follows:

- \$410 million for the Traffic Congestion Relief Program (TCRP) projects.
- \$255 million for the State Transportation Improvement Program (STIP)
- \$255 million for the local streets and roads

Background on Proposition 42 and Past Transportation Loans

- **Origin of the Traffic Congestion Relief Program and Proposition 42.**

- The Traffic Congestion Relief Program (TCRP) was established with the 2000-01 budget (AB 2928, Torlakson) as a *six-year* funding program – with \$2 billion transferred from the General Fund to the Traffic Congestion Relief Fund in 2000-01 and gasoline sales tax revenue of approximately \$1.1 billion to be transferred annually in 2001-02 through 2005-06 from the General Fund. The program did not increase taxes, but rather used existing General Fund revenue. Program revenue is statutorily distributed as follows:
 - \$4.9 billion for 141 specified transportation projects.
 - \$400 million to cities and counties for local streets and roads.
 - \$5 million to the High Speed Rail Authority.
 - The remainder (about \$2 billion) is proportionally allocated, with 40 percent for State Transportation Improvement Program projects, 40 percent for local streets and roads, and 20 percent for public transportation.
- General Fund revenues for the 2001-02 budget were below the level anticipated at the time of AB 2928, and as part of the enacted 2001-02 budget, implementation of the annual gasoline sales tax transfers to the TCRP was delayed two years – to 2003-04. Cities and counties agreed to forgo their share of gasoline sales tax revenue in 2006-07 and 2007-08 in exchange for receiving what would otherwise be their share of 2001-02 and 2002-03 revenue – this was paid by the State Highway Account. To compensate the

State Highway Account programs, the cities and counties share in 2006-07 and 2007-08 is required to shift to the State Transportation Improvement Program (STIP). As part of the budget agreement, a proposition was submitted to voters which placed the program in the Constitution and made permanent the use of gasoline sales tax revenue for transportation. Voters approved Proposition 42, which also contained a provision that allows the suspension of the transfer when the Governor issues a proclamation of General Fund need and the Legislature approves implementing legislation with a two-thirds vote.

- **Traffic Congestion Relief Fund loans to the General Fund and Proposition 42 suspensions.**
 - The 2001 Budget Act, the 2002 Budget Act, and legislation enacting the 2002-03 mid-year budget revision, loaned a total of \$1.38 billion from the Traffic Congestion Relief Fund to the General Fund with repayment due in 2005-06 (this was funding originally transferred from the General Fund to the TCRF in 2000-01).
 - The 2003 Budget Act partially suspended the 2003-04 Proposition 42 transfer with \$289 million transferred and \$868 million suspended. Repayment of the suspended amount is statutorily required in 2008-09. This funding level allowed projects with current allocations to continue, but was not sufficient to allow new project allocations.
 - The 2004 Budget Act fully suspended the 2004-05 Proposition 42 transfer of \$1.258 billion with repayment statutorily required in 2007-08. However, the budget included several mechanisms for early repayment of the \$1.383 billion loan due in 2005-06: a \$43 million General Fund transfer; a \$140 million transfer of “spillover” gasoline sales tax money that would otherwise go to the Public Transportation Account; and \$1.2 billion from tribal gaming bonds (see also the “Tribal Gaming Bonds” section below)
 - The 2005 Budget Act fully funded Prop 42 with \$1.345 billion transferred from the General Fund to the Transportation Investment Fund.
- **Intra-transportation loans.** Several loans have been made from the State Highway Account and the Public Transportation Account to backfill other transportation funds for the delayed implementation of the TCRP and the loans from the Traffic Congestion Relief Fund to the General Fund. These funds have stayed within transportation; however, they have shifted funds that would otherwise be available for highway capacity projects to TCRP projects (highway expenditures comprise 35 percent of expenditures for TCRP projects) and to local streets and roads projects.
 - As part of the 2001-02 refinancing of the TCRP, the State Highway Account transferred \$143 million in 2001-02 and \$150 million in 2002-03 to cities and counties, which represented the same amount expected if the sales tax on gasoline was transferred in those years. To repay the State for this loan, cities and counties forgo their 2006-07 and 2007-08 gasoline sales tax money (Prop 42 transfer) and this funding goes instead to the State Transportation Improvement Program.
 - Also as part of the 2001-02 refinancing of the TCRP, the State Highway Account financed capital outlay support for TCRP projects totaling \$89 million over 2000-01 through 2002-03, with repayment due in 2006-07. The tribal gaming bonds that were part of the 2004 budget, if successfully sold, will repay this loan.

- The 2002 Budget Act included a \$474 million loan from the State Highway Account to the Traffic Congestion Relief Fund. The 2003 Budget Act repaid \$100 million, the 2004 Budget Act repaid \$20 million, and the tribal gaming bonds, if successfully sold, will repay the remainder.
- The 2001 Budget Act and 2002 Budget Act included loans totaling \$275 million from the Public Transportation Account to the Traffic Congestion Relief Fund, with repayment due in 2007-08. Repayment is planned from the tribal gaming bonds or annual tribal gaming revenue.
- **Tribal Gaming Bonds.** The 2005 Budget Act assumed \$1 billion in tribal gaming bonds would successfully be sold in 2005-06 – originally it was assumed the bonds would sell in 2004-05 and generate \$1.2 billion. Lawsuits have delayed the issuance of the bonds. While legal issues are still outstanding, the Governor’s 2006-07 budget assumes the bonds will be successfully sold in the spring of 2006. If successfully sold, the bonds would partially repay \$1.2 billion in loans made from the Traffic Congestion Relief Fund to the General Fund, and associated loans from the State Highway Account and the Public Transportation Account to the Traffic Congestion Relief Fund. To the degree the bonds do not fully repay the loans, the outstanding amounts would be repaid from annual tribal gaming revenue. Statute no longer contains a full repayment due date for the TCRF loans.

Summary of Transportation Loans to the General Fund

Transportation Loans to the General Fund (in thousands) *	Loan Amount	Amount repaid to date	Repayment in Proposed Budget (through 2006-07)	Outstanding amount (after 2006-07) *	Current-law due date
► Traffic Congestion Relief Fund loans (from 2001-02 & 2002-03)	\$1,383,000	\$183,000	\$1,000,000	\$200,000	none
► 2003-04 Propositions 42 loan	868,000		0	868,000	June 30, 2009
► 2004-05 Proposition 42 loan	1,258,000		920,000	338,000	June 30, 2008
Total	\$3,509,000	\$183,000	\$1,920,000	\$1,406,000	

* Interest is required, but not included in these calculations

Public Transportation Account “Spillover” Revenue

For 2006-07, the Governor projects spillover revenue of \$317 million, and consistent with current law, retains \$200 million in the General Fund and transfers \$117 million to support the San Francisco–Oakland Bay Bridge project. Under current law, any spillover revenue in 2006-07 that exceeds \$325 million would be transferred to the Public Transportation Account with half of that amount transferred to local transit agencies through the Special Transportation Programs budget item.

Background. The spillover transfer dates back to legislation enacted in the early 1970’s. Chapter 1400, Statutes of 1971, relinquished 0.25 percentage points of the state’s 4.00 percent sales tax to local governments to fund transportation development (primarily mass transit). To

hold the General Fund harmless, the tax base was broadened to include gasoline. The legislation further provided a mechanism to assure that the General Fund would not benefit as a result of the broadened tax base – this “spillover” formula transfers any net General Fund revenue gain to the Public Transportation Account (PTA). Half of this PTA transfer is then transferred to local transit agencies through the Special Transportation Program budget. The spillover only occurs in years when gasoline prices are high relative to the prices of other goods.

No spillover occurred during the period of 1994-95 through 2000-01, or in 2002-03; however, a spillover of \$11.3 million occurred in 2001-02. In recent years, spillover revenue has been triggered, but the revenue has been retained in the General Fund or transferred to the Traffic Congestion Relief Fund as part of General Fund loan repayment.

- The 2003 Budget Act projected a spillover of \$87 million and associated trailer-bill legislation retained that amount in the General Fund (with any amount above \$87 million to be transferred to the Public Transportation Account). Actual spillover revenue turned out to be \$88.7 million.
- The 2004 Budget Act projected a spillover of \$140 million and trailer-bill legislation directed that amount to the Traffic Congestion Relief Fund as partial repayment of past loans to the General Fund (any excess spillover was retained by the General Fund). Actual spillover revenue turned out to be \$225.8 million.
- The 2005 Budget Act projected a spillover of \$380 million and trailer-bill legislation retains the full spillover in the General Fund. In part, this General Fund relief allowed for the first full Proposition 42 transfer in 2005-06. The revised estimate for spillover revenue is \$398.0 million.
- The 2006-07 spillover is affected by legislation enacted in during the 2005 session. The budget trailer bill SB 62 (Chapter 62, Statutes of 2005) retains the first \$200 million of spillover revenue in the General Fund. Assembly Bill 144 (Chapter 71, Statutes of 2005), dedicates up to \$125 million in spillover revenue to the Bay Bridge project (revenue exceeding \$200 million, up to \$325 million). If revenue ultimately ends up exceeding \$325 million in 2006-07, that amount would be transferred to the Public Transportation Account.

Governor’s Strategic Growth Plan

The Governor includes \$107 billion for transportation in his \$222 billion Strategic Growth Plan. The following table identifies the Administration’s categories of transportation expenditures (in billions):

Category of Investment	GO Bond	Other Funding	Total
Port Mitigation	\$ 1.0	\$ 1.0	\$ 2.0
Highways	5.6	47.7	53.3
Transit/Rail	0.7	3.8	4.5
Technology – ITS	0.2	3.1	3.3
Safety and Preservation	1.5	27.4	28.9
Trade Infrastructure	3.0	12.0	15.0
TOTAL	\$12.0	\$95.0	\$107.0

The *Other Funding* category, noted above, includes \$47 billion in revenue from existing sources such as gasoline excise taxes and vehicle weight fees. Additionally, \$48 billion is identified from “new” funding sources such as reauthorized local sales tax measures, tolls/container fees, and bonding against existing transportation revenues. As part of the plan, the \$10 billion high-speed rail bond would be removed from the November 2006 ballot; however, the High Speed Rail Authority is not proposed for elimination. The 2006-07 Governor’s Budget does not include any Caltrans augmentations related to the Strategic Growth Plan; however, the Administration will submit a Finance Letter in May that zero-bases Capital Outlay Support staffing, and that could include augmentations related to this proposal.

Major Budget Proposals

Highway Maintenance Funding. The Administration requests a permanent increase of \$105.3 million for highway infrastructure preservation. The department’s 2005 Five-Year Maintenance Plan described the existing maintenance backlog and proposed to augment the State Highway Operation and Protection Program (SHOPP) by \$105.3 million. This augmentation is not mentioned in the budget documents; however, Caltrans indicates the increase was built into the SHOPP appropriation. Historically, this preservation work would be budgeted and staffed in the Maintenance Program. Under the Administration proposal, the work would be budgeted and staffed in the Capital Outlay Support program. As such, no new positions are budgeted for this workload – instead staffing changes would be included in the May Revision Finance Letter for the zero-based Capital Outlay Support staffing.

Information Technology (IT) Projects. The Department requests approval for two large IT projects, which would have total costs of \$41.8 million through completion. The Integrated Financial Management Systems (IFMS) would cost \$21.8 million (\$3.1 million in 2006-07) and would improve financial reporting. The Construction Management System (CMS) would cost \$21 million (\$950,000 in 2006-07) and improve the quality of project-management record keeping. IFMS would use commercial-off-the-shelf software, while CMS would employ custom software. Funding for these projects, and two other IT projects, was originally requested by the Administration in 2002-03 (at a total cost of \$75 million); however, funding was denied until Caltrans completed its Information Technology Systems Enterprise Integration Strategy. The final Integration Study was issued June 30, 2004.

Owner Controlled Insurance Program. The Department requests funding of \$1.4 million and one position on a three-year limited term basis to implement the Owner Controlled Insurance Program (OCIP). The concept of OCIP is that the Department, as the owner, purchases major insurance coverage for its construction projects. Under current projects, the Department pays insurance costs indirectly through inclusion of the cost in the contractors’ bids. Caltrans estimates a potential savings ranging from \$42 million to \$64 million over the duration of the three-year program.

Equipment Program Changes. The Department requests to dismantle the Internal Service Fund known as the Equipment Service Fund and instead operate the Equipment Program as a distributed-cost program. The Equipment Service Fund was established in 1997-98 with the stated goal of better-managing the fleet across Caltrans programs and renting idle equipment to

local governments. Annual savings/cost recoveries of up to \$5.7 million, as originally envisioned, never materialized.

Oakland District Office Building Seismic Retrofit. The Administration requests \$44.3 million to fund the construction-phase of the Oakland district office building seismic retrofit. The 2005 Budget Act included \$2.2 million to fund the working drawings for this project.

2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The total cost to build the entire system was most-recently estimated at \$37 billion.

The Governor proposes \$1.3 million in total expenditures for the HSRA, a decrease of \$3.9 million (75 percent) from the current-year budget. The large budget decrease is due to the expiration of one-time funding for environmental studies and a financing plan. Current law provides for a proposition on the November 2006 ballot to provide \$9.95 billion in general obligation bonds for the high-speed rail and related rail projects; however, the Governor proposes to delay this bond vote indefinitely.

2720 California Highway Patrol

The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for state employees and property.

The Governor proposes \$1.6 billion in total expenditures (no General Fund) for the CHP, an increase of \$124 million (9 percent) from the current-year budget.

Major Budget Proposals

Enhanced Radio System. The Administration requests approval for a five-year funding plan totaling \$494 million to enhance the Departments' existing public safety radio system. Improvements would enable radio interoperability with other public safety agencies and provide additional radio channels for tactical and emergency operations. The 2006-07 augmentation would be 10 positions and \$57 million.

Officer Staffing Augmentation. The Administration requests a permanent increase of \$41.9 million to augment staffing 310 positions (240 Officers and 70 supervisory and non-uniformed support staff). The increase would be phased in over two years, with 2006-07 funding at \$33.7 million and staffing at 235 positions (165 Officers and 70 supervisory and non-uniformed support staff). The CHP indicates this increase would help address the continual increase in workload associated with population growth throughout the state.

Wireless 9-1-1 Dispatcher Staffing Augmentation. The Administration requests a permanent increase of \$7.2 million to augment staffing 173 positions (156 Dispatchers and 17 supervisory positions). The increase would be phased in over two years, with 2006-07 funding at \$6.3 million and staffing at 93.5 positions (85 Dispatchers and 8.5 supervisory positions). The CHP indicates this increase would help address the continual increase in workload associated with wireless 9-1-1 calls.

Capital Outlay. The Administration requests an augmentation of \$5.7 million for six major capital outlay facilities projects – most of the funding is for working drawings and land acquisition. The majority of these projects involve the replacement of existing CHP area offices. Construction costs would be requested in future budgets. When future estimated construction costs are included, the total cost for these projects is \$39.3 million.

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

The Governor proposes total expenditures of \$818 million (no General Fund), an increase of \$47 million (6 percent) from the current-year budget.

Major Budget Proposals

Electronic Insurance Verification. The Administration requests an augmentation of \$9.3 million to implement SB 1500 (Chapter 920, Statutes of 2004). This legislation requires each insurer that issues private passenger automobile liability policies, to electronically report to the DMV all issued policies, changes, and terminations; and requires DMV to suspend vehicle registrations if insurance is not in force. Ongoing costs in 2007-08 and thereafter are identified at \$13.5 million.

Remittance System Replacement. The Administration requests one-time funding of \$5.4 million and ongoing funding of \$523,000 to replace the remittance system used for mail extraction and payment processing.

Major Issue

Federal REAL ID Act. On May 11, 2005, President Bush signed H.R. 1268, which includes the REAL ID Act of 2005. Regulations from the federal government on the implementation of this law are expected later this year; however, the Act is expected to present major challenges and costs for the DMV and the people of California. The Act will require Californians to have a compliant driver's license or identification card by May of 2008 in order to enter a federal building or cross an airport checkpoint. No federal funds are provided for implementation and the cost to DMV may be in the hundreds of millions of dollars to one billion dollars. The Administration indicates no budget augmentation is requested for REAL ID Act implementation because the regulations have not been promulgated.

STATE ADMINISTRATION

LEGISLATIVE / EXECUTIVE

This section includes the budgets of constitutional officers, the Legislature, and agency secretaries.

0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Administration with legislative analysis and planning, research, and liaison with local governments. The OPR also oversees programs for small business advocacy, rural policy, and environmental justice. In addition, the office has responsibilities pertaining to state planning, California Environmental Quality Act assistance, environmental and federal project review procedures, and overseeing the California Service Corps.

The Governor's budget funds 72.3 positions and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$3,843	\$8,887	\$5,044	131.3
Federal Trust Fund	38,748	37,802	-946	-2.4
Reimbursements	1,472	403	-1,069	-72.6
Total, Fund Source	\$44,063	\$47,092	\$3,029	6.9
Programs				
State Planning and Policy Development	\$4,842	\$8,909	\$4,067	84.0
California Service Corps	39,221	38,183	-1,038	-2.6
Total, Programs	\$44,063	\$47,092	\$3,029	6.9

Key Budget Adjustment

Americorps and Conservation Corps Grants. The Governor's budget includes \$5 million General Fund to reinstate an appropriation to the California Service Corps for the purpose of funding grants to local and state operated Americorps and Conservation Corps programs. Legislation enacted in 2003 had suspended this appropriation for three years.

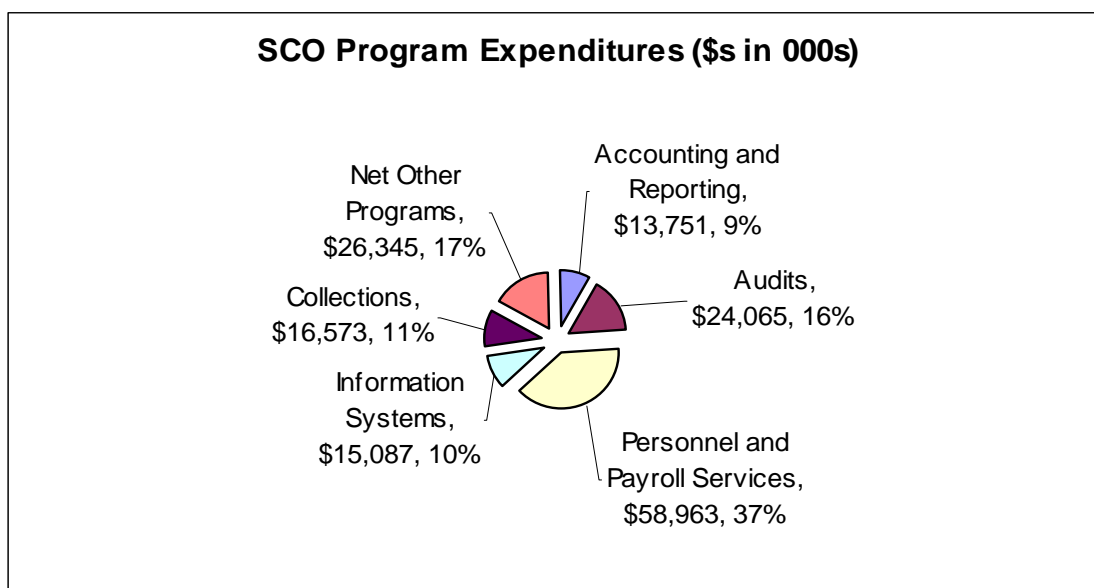
0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary functions of the State Controller are to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the Unclaimed Property and Property Tax Postponement Programs.

The Governor's budget funds 1,142.3 positions (including 54.7 new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$74,734	\$95,863	\$21,129	28.3
Federal Trust Fund	1,252	1,281	29	2.3
Reimbursements	33,918	35,762	1,844	5.4
Other Funds	17,044	21,878	4,834	28.4
Total, Fund Source	\$126,948	\$154,784	\$27,836	21.9

The chart below shows SCO expenditures by function:



Key Budget Adjustments

Human Resource Management System—21st Century Project (HRMS). The Governor's budget includes an augmentation of \$37.5 million (\$20.1 million General Fund) and 46.5 one year limited-term positions to implement the design, development, and initial rollout phases of the HRMS. This workload is part of an ongoing multi-year project to replace existing employment history, payroll, leave accounting, and position control systems. The HRMS will also include a statewide time and attendance capability, greatly enhancing the Controller, Administration, and Legislature's fiscal oversight abilities. For example, it is expected that the system will capture actual salary savings at each department, replacing the arbitrary five percent standard used statewide today. This project was first funded in the 2004-05 budget year.

Apportionments Payment System. The budget includes \$776,000 (special funds) for a third year of funding to overhaul the state's Apportionment Payment System. The existing system has become dangerously overburdened and prone to breakdown, endangering a timely distribution of apportionments to local agencies. After this final year of system replacement, ongoing costs to maintain the system are expected to be \$62,000. Significant workload savings are expected from replacing the existing system, a savings the Legislature will seek to quantify.

Unclaimed Property Program Staffing. The budget includes \$554,000 General Fund and 7.2 positions to handle increased workload associated with notifying owners of unclaimed property, facilitating auctions of safe deposit boxes, and providing operational support to Unclaimed Property Program management. Based on the significant General Fund revenues identified by this program in recent years, the Legislature may wish to clarify how these positions will affect revenues, as well as service to citizens due unclaimed property.

Bank Reconciliation System Project. The budget includes \$710,000 (\$308,000 General Fund) to replace the State Controller's existing bank reconciliation system. This system tracks and issues bank warrants for the state. The Administration asserts that the technology of the current system is obsolete and technicians to operate the system increasingly scarce.

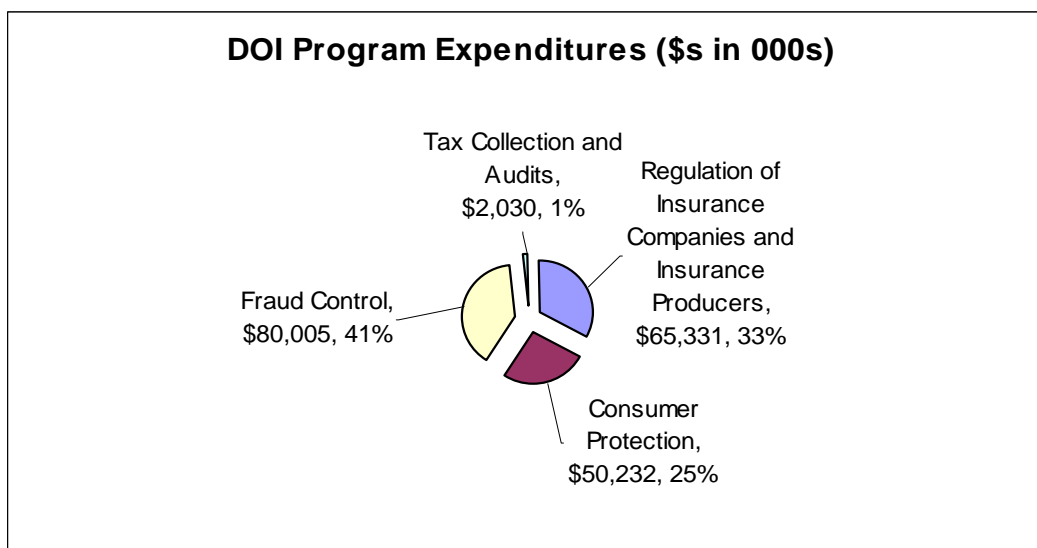
0845 Department of Insurance

Under the leadership of the state's Insurance Commissioner, the Department of Insurance regulates the largest insurance market in the United States with over \$115 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and those insurance companies are financially able to meet their obligations to policyholders and claimants. The Department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and combats insurance fraud.

The Governor's budget funds 1272.9 positions (including 13 new positions) and expenditures as follows:

Summary of Expenditures

(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
Insurance Fund	\$202,028	\$197,348	-\$4,680	-2.3
Reimbursements	250	250	0	0.0
Total, Fund Source	\$202,278	\$197,598	-\$4,680	-2.3

**Key Budget Adjustments**

Office of Administrative Hearings. The budget includes \$837,728 (Insurance Fund) for increased costs associated with a higher administrative hearing workload conducted by the Department's legal office. The cost of administrative hearings has grown by 63 percent since 2003-04. The number of hearings has also increased; from 338 in 2004-05 to an estimated 730 in 2006-07.

Workers' Compensation Research Funding. The budget includes \$1 million (Insurance Fund) for a study to measure the extent of workers' compensation insurance fraud and to identify emerging fraud trends. The information gleaned from this research would be used to focus investigative and prosecution efforts, as well as identify areas where more resources may be needed. Funding for this study will come from a one-time fee on employers.

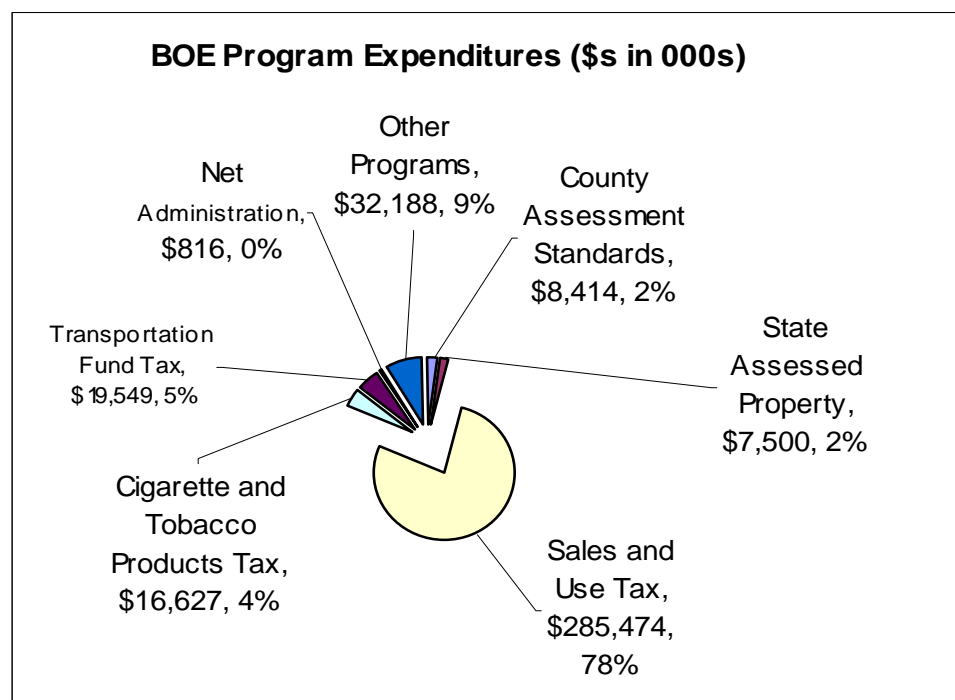
0860 State Board of Equalization

The State Board of Equalization (BOE), the Franchise Tax Board, and the Employment Development Department are the state's major tax collection agencies. The BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, as well as others. BOE also assesses utility property for local property tax purposes, oversees the administration of local

property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including FTB decisions under the personal income tax and bank and corporation tax laws.

The Governor's budget funds 3,802.9 positions (including 64.5 new positions) and budget expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$222,822	\$212,815	-\$10,007	-4.5
Motor Vehicle Fuel Account	20,159	19,549	-610	-3.0
Federal Trust Fund	700	1167	467	66.7
Reimbursements	103,870	104,716	846	0.8
Other Funds	31,055	32,321	1,266	4.1
Total, Fund Source	\$378,606	\$370,568	-\$8,038	-2.1



Key Budget Adjustments

Retail Licensing Enforcement. The Administration proposes \$1.1 million General Fund, \$571,000 special fund, and 15 positions for the Board to identify and register businesses that operate without paying applicable sales and use taxes. Revenues of \$12.6 million are projected, a nine-to-one benefit-cost ratio. Given the considerable fiscal benefits of this enforcement

measure, the Legislature may wish to carefully verify the benefits described and whether additional resources would be beneficial to the state.

Agricultural Inspection Station Leads. The Governor proposes \$811,000 General Fund, \$632,000 special fund, and 16 positions for the Board to identify property that is brought into the state without the payment of sales and use taxes. The program will run from California Department of Food and Agriculture-operated agricultural inspection stations. Revenues of \$7.4 million are projected, a six-to-one benefit-cost ratio. Given the considerable fiscal benefits of this enforcement measure, the Legislature may wish to carefully verify the benefits described and whether additional resources would be beneficial to the state.

Enforcement of Consumer Purchases of Tobacco Products from Out-of-State Sellers. The Administration proposes \$1.8 million and 20 positions to establish a program to recoup state tax revenues on cigarette and tobacco sales on the Internet and through mail orders. Revenues of \$33.8 million are projected in the budget year, an 18-to-1 benefit-cost ratio. Given the considerable fiscal benefits of this enforcement measure, the Legislature may wish to carefully verify the benefits described and whether additional resources would be beneficial to the state.

Vehicle, Vessel, and Aircraft Use Tax Payments. The Administration proposes to extend, for one year only, the requirement that use tax be paid if a vehicle, vessel, or aircraft is brought into the state within 12 months of purchase. Approximately \$35 million in General Fund revenues are attributed to this extension of law which is set to expire in 2006-07. If statute is not extended, purchasers of vehicles, vessels, or aircraft outside the state and brought into the state within only 90 days after purchase are required to pay the use tax. The Legislature will want to carefully evaluate the effect of the 12 month law change, relative to 2003-04 compliance when the 90-day rule was last in effect.

Issue

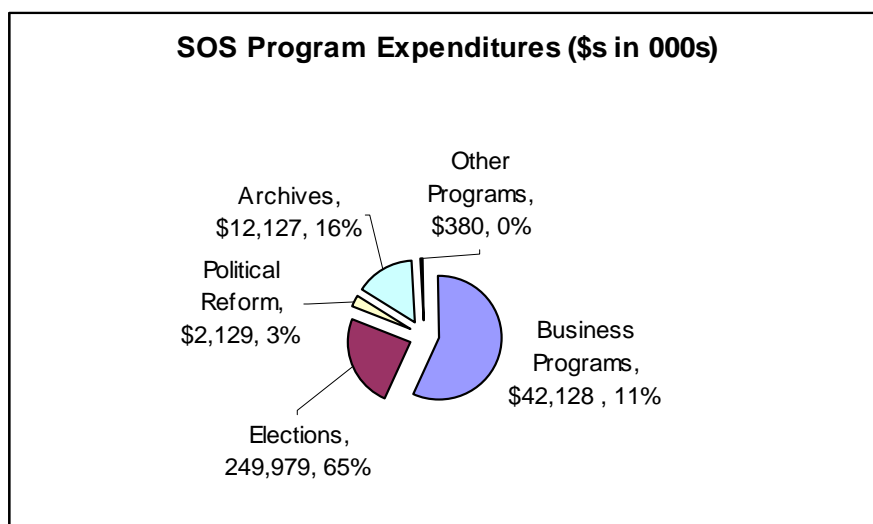
Tax Agency Consolidation. The California Performance Review and Legislative Analyst's Office (among others) have in recent years proposed that the two main tax agencies (BOE and FTB) consolidate some functions. One common proposal would involve "virtual" consolidation of some of the online features of both agencies and computer systems common to both departments. For example, a simple web portal could be created for taxpayers attempting to figure out where to pay a tax or seek a license (California's tax collectors and licensing agencies include not only FTB and DMV, but also the Employment Development Department, Department of Motor Vehicles, Department of Alcoholic Beverage Control, among others). The Legislature may wish to explore that option and other measures to demystify taxpayers' encounter with a tax agency, as well as reduce departmental redundancies.

0890 Secretary of State

The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for the appointment of notaries public, enforcement of notary law and preservation of certain records with historical significance. All documents filed with the office are a matter of public record and of historical importance. The Secretary of State's executive staff determines policy and administration for Elections, Political Reform, Business Programs, Archives, and Information Technology and Management Services Divisions.

The Governor's budget funds 484.5 positions (including 31 new positions) and budget expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$86,117	\$32,040	-\$54,077	-62.8
Secretary of State's Business Fees	33,785	34,446	661	2.0
Federal Trust Fund	254,708	1,745	-252,963	-99.3
Reimbursements	7,347	7,339	-8	-0.1
Victims of Corporate Fraud Compensation	1,600	1,624	24	1.5
Total, Fund Source	\$383,557	\$77,194	-\$306,363	-79.9



Key Budget Adjustments

Help America Vote Act (HAVA) Expenditures. The Governor's budget does not incorporate the approved spending plan for over \$200 million in federal HAVA funds. These funds were to be used for voter outreach, a statewide voter database, voting machine replacement, among other voter-related activities. The expenditure plan was jointly developed by the Secretary of State's office, Administration, and Legislature. Particularly in light of past delays by the Secretary of State in expending HAVA funds (and the illegal expenditure of some), the Legislature will want to ascertain the reason for the delay and scrutinize the expenditure plan.

November 2005 Special Election Costs. The proposed budget includes \$54 million General Fund for the Governor's special election: \$45 million to reimburse counties and \$9 million to reimburse the Secretary of State. As a current year funding proposal, separate statutory authority will be necessary before these expenditures can be paid back. The Administration asserts that these funds must be repaid expeditiously to enable implementation of the June 2006 primary election.

Notary Public Application. The budget includes \$3.1 million (Business Fees Fund) and 30 positions to augment the Secretary of State's capacity to process notary applications and conduct background checks. The Legislature last funded an augmentation for notary activities in 2004-05 and will want to explore how that augmentation affected the workload defined at that time.

Forensic Leak Assessment and Security System Replacement. The budget includes \$625,000 (Business Fees Fund) to conduct a forensic leak assessment and replace the security monitoring system at the Secretary of State and Archives Building complex. Similar to the Board of Equalization Building on N Street in Sacramento, the Secretary of State has encountered water intrusion problems during heavy weather, resulting in concerns about mold-related illnesses.

0950 State Treasurer's Office

The State Treasurer, a constitutionally established office, provides banking services for State government with the goals of minimizing interest and service costs, and maximizing yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the State; investment of temporarily idle State monies; administration of the sale of State bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other State agencies.

The Treasurer's Office also plays a central administrative role to numerous state boards, authorities and commissions. The Treasurer serves as chair or member of these various agencies that organizationally report to the State Treasurer's Office. Many of these agencies are authorized to issue debt for specific purposes as permitted by law. These agencies also may advise California municipalities on debt issuance and oversee the state's various investment operations.

The Governor's budget funds 222.8 positions (with no new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$6,068	\$6,132	\$64	1.1
Reimbursements	16,533	16,637	104	0.6
Total, Fund Source	\$22,601	\$22,769	\$168	0.7

Key Budget Adjustment

The Governor's budget includes no adjustments to the State Treasurer's Office.

STATE AND CONSUMER SERVICES AGENCY

This section includes the budgets of the Science Center; the Department of Consumer Affairs (including all bureaus, boards programs and divisions); the Department of Fair Employment and Housing; the Franchise Tax Board; the Department of General Services; the State Personnel Board; the Public Employees' Retirement System; the State Teachers' Retirement System; and the Department of Technology Services. Departments with major budget change proposals are highlighted.

1110 & 1111 Department of Consumer Affairs

The Department of Consumer Affairs is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department serves as an umbrella for 27 semi-autonomous boards and 11 bureaus and programs that regulate over 230 professions. The 2006-07 budget for Consumer Affairs and its associated boards, bureaus, and commissions totals \$398.5 million (\$785,000 General Fund), which is an increase of \$13.4 million from the current year.

Major Budget Proposals – Boards (1110)

Medical Board. The Governor proposes the following three augmentations for the Medical Board.

- **Implementation of Independent Monitor's Recommendations.** The Administration requests \$3.8 million and 10 positions to implement most of the key recommendations made by the Board's Enforcement Monitor. This request is associated with the fee increase and policy changes enacted with SB 231 (Chapter 674, Statutes of 2005).
- **Diversion Program.** The Administration requests \$181,000 and two positions to address workload in the Diversion Program, which identifies and rehabilitates physicians impaired due to the abuse of drugs or by a mental or physical illness.
- **Enforcement Program.** The Administration requests \$169,000 to fund cost increases for expert witnesses, which are used to prosecute violations of the Medical Practice Act.

Various Boards – Augmentations for Cost/Workload Growth. Various Boards request the augmentation of special fund support to cover cost increases and/or growth in workload. In some cases, the augmentations restore positions lost from vacant position eliminations.

- Board of Vocational Nursing and Psychiatric Technicians (\$168,000 and 4.0 positions)
- Architects Board (\$27,000 and 0.5 position)
- Athletic Commission (\$290,000 and 4.5 positions)
- Board of Barbering and Cosmetology (\$608,000 and 4.0 positions – two requests)
- Board of Geologists and Geophysicists (\$185,000 and 1.0 positions – two requests)
- Physician Assistant Committee (\$38,000 and no positions)
- Osteopathic Medical Board (\$28,400 and 0.5 position – two requests)
- State Board of Pharmacy (\$208,000 and 2.5 positions)
- Board for Professional Engineers and Land Surveyors (\$46,000 plus redirection and 4.0 positions – two requests)
- Structural Pest Control Board (\$126,000 and 1.0 positions – two requests)
- Speech-Language Pathology & Audiology Board (\$18,000 and 0.3 positions)

Moving Costs. The Administration requests an augmentation of \$1.7 million for moving costs for various Boards located on Howe Avenue in Sacramento; and an augmentation of \$25,000 for the Occupational Therapy Board to move to a larger space on North Third Street in Sacramento.

Major Budget Proposals – Bureaus (1111)

Bureau for Private Postsecondary & Vocational Education – Expenditure Cut. The Governor proposes a \$194,000 expenditure cut for the Bureau, which is charged with regulating private degree, non-degree, and registered postsecondary and vocational institutions. This reduction is proposed to reduce expenditures to expected revenue – no detail concerning the affect of the reduction on the functions of the Bureau is provided with the request.

Bureau of Home Furnishing & Thermal Insulation – Outsourcing. The Governor proposes an augmentation of \$213,000 to support external contracts for laboratory workload. Lab work is not currently outsourced; however, the Bureau indicated it does not have the equipment and staff to perform all the necessary tests. The Administration indicates it would cost \$664,000 to perform this same workload in-house.

Various Bureaus – Rent Reduction. The Governor proposes a reduction of \$1.3 million due to ongoing savings from the relocation of the Department’s headquarters facility.

Various Bureaus – Augmentations Related to Enacted Legislation. The Governor proposes augmentations associated with recently enacted legislation for the following bureaus:

- Dental Board of California. The Administration requests a \$76,000 augmentation for ongoing workload created by AB 1386 (Chapter 539, Statutes of 2005), which involves the administration of the Oral Conscious Sedation Program.
- Bureau of Automotive Repair. The Administration requests a \$3.8 million augmentation to implement the provisions of AB 383 (Chapter 565, Statutes of 2005), which expands consumer eligibility to receive financial assistance from the State to repair a high polluting vehicle that fails its biennial Smog Check inspection.

- Bureau of Security and Investigative Services. The Administration requests a \$1.4 million and 20 position augmentation to implement the provisions of SB 194 (Chapter 655, Statutes of 2005), which mandates the regulation and licensure of specified private unarmed security officers.

iLicensing System. The Governor requests an augmentation of \$3.7 million and 8.9 positions for the purposes of replacing its existing on-line professional licensing system with a new “iLicensing” system. The Administration proposes Control Section 4.55 to allow the Director of Finance to increase appropriations for DCA’s boards and bureaus to fund this system (up to a total of \$3.7 million).

1700 Department of Fair Employment and Housing

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence.

The Governor proposes total expenditures of \$20.7 million (\$15.2 million General Fund), a \$1.6 million increase from the current year.

Major Budget Proposals

Staffing Augmentation. The Governor proposes a \$1.0 million (General Fund) and 12 position augmentation for employment discrimination enforcement to investigate more complaints.

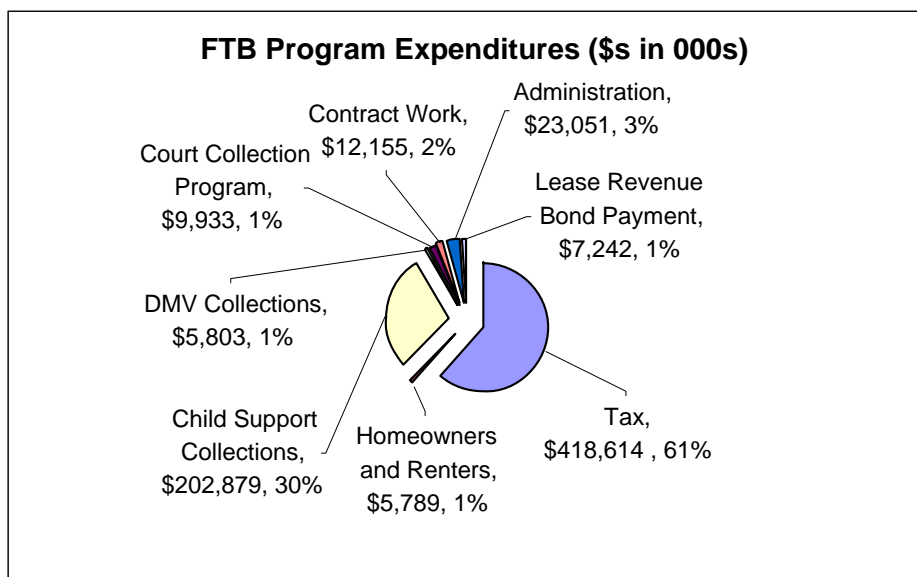
Web-Based Appointment Scheduling. The Governor proposes a \$464,000 (General Fund) and 1.9 position augmentation to automate its appointment intake scheduling and “Right to Sue” applications.

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers state personal income tax and corporation taxes for the State of California, collects debt on behalf of other state agencies and local entities, and performs audits of campaign statements and lobbyist reports authorized by the Political Reform Act of 1974. The FTB is tasked to correctly apply the laws enacted by the Legislature; to determine the reasonable meaning of various code provisions in light of the legislative purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view.

The Governor's budget funds 5,160.4 positions (including 32.5 new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$514,417	\$499,271	-\$15,146	-2.9
Motor Vehicle Account	1,983	2,012	29	1.5
Motor Vehicle License Fee Account	3,739	3,791	52	1.4
Court Collection Account	6,045	9,933	3,888	64.3
Reimbursements	170,891	147,307	-23,584	-13.8
Other Funds	-176	101	277	0.0
Total, Fund Source	\$696,899	\$662,415	-\$34,484	-4.9



Key Budget Adjustments

Teacher Retention Tax Credit. The Governor's budget extends the suspension of the Teacher Retention Tax Credit for one year, generating a savings of \$200 million General Fund. The tax credit provides up to \$1,500 to credentialed teachers, depending on their years of service. This credit was suspended in 2002 and again in 2004 and 2005.

Court Ordered Debt Program Expansion. The budget proposes \$3.84 million (Court Collections Fund) and 31 positions to augment for one year funding for the Court Ordered Debt (COD) Expansion Project, pursuant to Chapter 380, Statutes of 2004 (Escutia). That bill requires the FTB to expand collection activities on delinquent court-imposed debts referred by state and local agencies. Anticipated collections from this project in the budget year are \$17.6 million to counties and state special funds.

California Child Support Automation System (CCSAS) Reduction. The budget includes a reduction of \$33.8 million (\$10.2 million General Fund) to reflect a revised implementation and management plan for the CCSAS. Savings are attributable to revised printing, training, and consultant service needs. The project is on schedule and full implementation expected in September 2008.

Issues

Current Year Unallocated Reduction. The 2005-06 Budget Act included an unallocated reduction of \$7.84 million to the FTB's baseline budget. During budget hearings, the FTB was unable to say with certainty how those reductions would occur. Considering the significance of FTB activities as the primary revenue collection agency, the Legislature may wish to ascertain where those reductions occurred, how the decision to cut was made, and the indirect or direct impact on revenue collection activities.

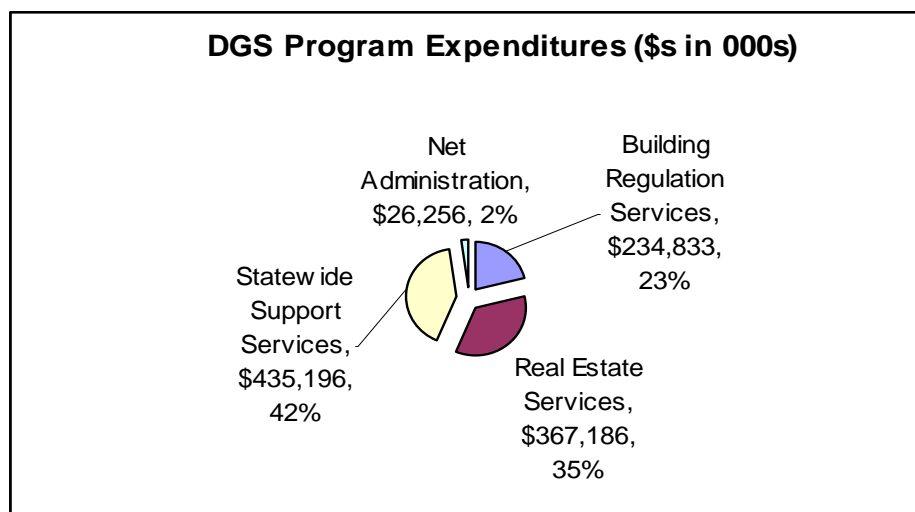
Staffing Augmentation for Revenue Collections. The Legislature added more than \$3 million in current year funding for collections, processing, and auditing activities. Anticipated revenues are approximately \$20 million. Based on this considerable return, the Legislature may wish to confirm that this considerable benefit-cost return was borne out and, if so, what additional resources may be added to enhance FTB tax administration activities.

1760 Department of General Services

The Department of General Services (DGS) provides management review and centralized support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the state departments' procurement of materials, communications, transportation, printing, and security.

The Governor's budget funds 3638.8 positions (including 12 new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$15,146	\$331	-\$14,815	-97.8
State Emergency Telephone Number Account	144,893	177,145	32,252	22.3
State Motor Vehicle Insurance Account	29,241	29,892	651	2.2
Public School Planning, Design, & Construction Review Revolving Fund	31,837	32,027	190	0.6
Architecture Revolving Fund	39,011	38,818		
Service Revolving Fund	712,181	747,846	35,665	5.0
Other Funds	30,716	28,933	-1,783	-5.8
Total, Fund Source	\$1,003,025	\$1,054,992	\$51,967	5.2



Key Budget Adjustments

Williams Settlement. The budget includes \$14.1 million General Fund to pay for the settlement of the case *Williams et al. v. State of California, et al.* (County of San Francisco Superior Court, Case Number 312236). Pursuant to Chapter 124, Statutes of 2005 (AB 351, Chu), the state must abide by the judgment in that case by providing public school students with equal access to instructional materials, safe and decent school facilities, and qualified teachers.

Transfer from Property Acquisition Law (PAL) Account. The Administration proposes to shift \$12 million from the PAL Account to the General Fund. The Legislature will want to

carefully consider the programmatic impact of sweeping these special funds to the General Fund.

Capital Outlay Projects – Structural Retrofit. The budget proposes \$3.7 million General Fund for preliminary plans and working drawings necessary to implement the structural retrofit of nine state facilities. The affected state facilities are: Department of Veterans Affairs Yountville East Ward; Department of Corrections Tehachapi Chapels Facility; Department of Mental Health State Hospital (Norwalk) Wards 206 and 208; National Guard Armory in Stockton; California Correctional Center Vocational Building in Susanville; Vacaville Correctional Medical Facility Wings U, T, and V; California Correctional Institute for Women Infirmary in Frontera; California Correctional Institute for Women Clinic in Frontera; and Department of Corrections Jamestown Buildings E and F. Considering that these expenditures are for plans only, the eventual construction costs are expected to be in the tens to hundreds of millions of dollars.

Procurement Division/Interagency Support Division Realignment. The budget includes the programmatic transfer of \$6.9 million (Service Revolving Fund) and 54.6 positions from the Procurement Division to the Interagency Support Division. The affected positions work with property reutilization, surplus property sales, transportation management, transit storage, and federal surplus property programs.

Excess Expenditure Authority Adjustment. The budget includes a reduction of \$7.8 million (special funds) to recognize operating expense savings resulting from recent personnel reduction measures, including Control Section 31.60 of the Budget Act of 2002 and Control Section 4.10 of the Budget Act of 2003.

Building and Property Management Special Repairs. The budget includes \$2.5 million (Service Revolving Fund) to create a permanent funding source to complete special repairs and deferred maintenance in Building Rental Account buildings.

Emergency Telephone—Enhanced Wireless Service. The budget includes \$32 million in expenditure authority for a local assistance appropriation to provide enhanced wireless services for 911 calls. This service will mean better identification of callers and improved cooperation between the CHP (who currently receives the most 911 calls) and the local Public Safety Answering Points. The rollout of enhanced 911 services has been delayed for years due to evolving technology, regulatory issues, and scheduling problems. Given the history of delay and extended spending timelines, the Legislature will want to carefully consider the reliability of the schedule and ways to facilitate implementation of this valuable service.

Issue

Reducing State Travel Costs by Booking Online. Based on a CPR recommendation and research by the department, the Legislature augmented DGS to allow establishment of a statewide travel portal. This action was meant to centralize in-state airline ticket bookings to save costs and encourage those ticket bookings at least two weeks in advance. The Legislature directed the Director of DGS to evaluate this portal after one year and recommend ways to save costs on all travel bookings. While the Director of DGS is not required to report before June 30, 2006, the Legislature may wish to be briefed earlier on the travel portal and other measures that they may take to economize travel by state employees.

1880 State Personnel Board

The State Personnel Board (SPB) is responsible for California's civil service system. SPB provides a variety of recruitment, selection, classification, goal setting, training and consultation services to State departments and local agencies. The Board is composed of five members, who are appointed by the Governor, and serve 10-year terms.

The Governor proposes expenditures of \$19.2 million (\$4.0 million General Fund) and 132.8 positions for the SPB – an increase of \$728,000.

Major Budget Proposals

Augmentation of Reimbursement Authority. The Governor proposes a reimbursement authority augmentation for the following purposes:

- State Employee Mediation Program. The SPB requests \$102,000 and one position to address an increase in mediation referrals workload.
- On-line Support. The SPB requests \$191,000 and 2 positions to provide additional assistance to departments with the on-line system.
- Administrative Support. The SPB requests \$102,000 and 1 position for additional administrative support.

1900 Public Employees' Retirement System

The Public Employees' Retirement System (PERS) provides benefits to 1,016,982 active and inactive members and 431,901 retirees. PERS membership is divided approximately in thirds among current and retired employees of the State, schools, and participating public agencies. This budget item shows PERS benefit expenditures and revenues, with State support included as a "nonadd," because that cost is also included in department budgets. General Fund support for PERS is budgeted at \$1.365 billion in 2006-07 – an increase of \$30 million. PERS contribution rates are set by Control Section 3.60 of the Budget Bill, and PERS generally updates these rates at the time of the May Revision.

1920 State Teachers' Retirement System

The State Teachers' Retirement System (STRS) provides retirement-related benefits and services to 735,000 active and retired educators in public schools from kindergarten through the community college system. This budget item shows STRS benefit expenditures and revenues, with General Fund support included as a "nonadd." General Fund support for STRS is budgeted in item 6300 – in the Education section of the budget. This year the Governor is not proposing any cuts to the State's STRS funds – with funding set at 2.5 percent of payroll for purchasing power benefits (\$597 million in 2006-07) and 2.017 percent of payroll for regular retirement benefits (\$482 million in 2006-07)

1955 Department of Technology Services

The Department of Technology Services (DTS) is the result of reorganization and consolidation of the Stephen P. Teale Data Center (Teale), the Health and Human Services Data Center (HHSDC), and certain telecommunications functions of the Department of General Services. The Department of Technology Services (DTS) serves the common technology needs of Executive Branch agencies and other public entities with accountability to customers for providing secure services that are responsive to their needs and represent best value to the state. A Technology Services Board provides governance and guidance to the DTS.

The Governor's budget funds 775.2 positions (no new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
Department of Technology Services Revolving Fund	\$239,420	\$238,161	-\$1,259	-0.5
Total, Fund Source	\$239,420	\$238,161	-\$1,259	-0.5

Key Budget Adjustments

Child Welfare System/Case Management System Application Hosting Move. The budget proposes \$4.0 million (DTS Revolving Fund) to enable the department to move this system from an IBM data center in Colorado to a state data center. The Administration asserts that this move is necessary to comply with a federal directive and protect the system in state.

Mainframe CPU Processing Capacity. The Governor's budget proposes \$5.7 million (DTS Revolving Fund) to purchase mainframe processing capacity in order to meet projected workload increases and upgrade software. DTS asserts that this capacity growth need is primarily driven by population growth and the corresponding impact on departments' IT needs.

Server Upgrades. The budget includes \$4.1 million (DTS Revolving Fund) to allow for the replacement of 45 UNIX and 70 Windows servers with 120 new Windows servers and 10 UNIX servers.

BUSINESS, TRANSPORTATION, & HOUSING AGENCY

This section includes the budgets of the departments of Alcoholic Beverage Control, Financial Institutions, Corporations, Housing and Community Development, Office of Real Estate Appraisers, Real Estate, and Managed Health Care. Transportation-related departments are included in the Transportation section of this overview. Departments with major budget changes are highlighted below.

0520 Secretary for Business, Transportation and Housing

The Secretary of the Business, Transportation and Housing Agency is a member of the Governor's Cabinet and oversees departments within the Agency. In addition, the Secretary's Office oversees smaller programs, such as the Small Business Loan Guarantee Program and the Film Commission, which are budgeted directly in the Secretary's Office.

The Governor proposes total expenditures of \$29 million (\$15.6 million General Fund) for the Office of the Secretary – an increase of \$3.3 million.

Major Budget Proposals

Small Business Loan Guarantee Program. The Governor proposes the following adjustments to the Small Business Loan Guarantee Program:

- **Loan Repayment.** The Administration proposes to repay the \$10.7 million loan (including interest) for the loan made from the Program to the General Fund in 2002-03.
- **Chrome Plating Program.** The Administration proposes to place the Chrome Plating Program, established by AB 721 (Chapter 695, Statutes of 2005), within the Small Business Loan Guarantee Program.

California Travel and Tourism Commission. The Governor proposes a General Fund augmentation of \$2.7 million to increase the state's contribution to the Commission to \$10 million. The Administration indicates this augmentation would leverage an additional \$4 million in private sector funds, bringing the total marketing budget up to \$25 million, of which \$10 million would go directly to advertising. In addition, as part of the justification for a General Fund augmentation in the current-year, the Administration indicated increased revenues at a 12-to-1 benefit-cost ratio.

Film Commission. The Governor proposes the following adjustments to the Film Commission budget:

- **Information Technology and Outreach.** The Administration requests an on-going General Fund augmentation of \$80,000 to support the existing on-line permitting system and to increase outreach efforts.
- **Film Promotion and Marketing Fund.** The Administration requests an on-going appropriation of \$10,000 (Film Promotion and Marketing Fund) in accordance with AB 1437 (Chapter 168, Statutes of 2005), which created the fund. Fund revenues will be derived from the sales of location library documents, photocopying, and other film-related informational

documents in addition to moneys from any and all public or private sources that support the purposes of the legislation.

2100 Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control (ABC) administers the provisions of the Alcoholic Beverage Control Act, which vests in the Department the exclusive right and power to license and regulate the manufacture, sale, purchase, possession, and transportation of alcoholic beverages within the state and, subject to certain laws of the United States, to regulate the importation and exportation of alcoholic beverages into and from the state.

The Governor proposes total expenditures of \$51.8 million (no General Fund) - an increase of \$6.4 million from the current year.

Major Budget Proposals

Grant Assistance Program (GAP). The Governor proposes an augmentation of \$1.7 million and 3 positions to increase the Department's grants to local law enforcement agencies to \$3 million. Assembly Bill 428 (Chapter 120, Statutes of 2005), found that the GAP program was a successful law enforcement program and that annual funding should be no less than \$1.5 million and no more than \$3 million.

Overtime Augmentation. The Governor proposes an augmentation of \$1.7 million to fund overtime costs associated with additional enforcement and licensing efforts.

2150 Department of Financial Institutions

The Department of Financial Institutions (DFI) regulates depository institutions, including commercial banks, savings associations, credit unions, industrial loan companies, and certain other providers of financial services. In addition, the Department licenses and regulates issuers of payment instruments, including companies licensed to sell money orders and/or travelers' checks or licensed to engage in the business of transmitting money abroad, and business and industrial development corporations.

The Governor proposes total expenditures of \$24.7 million (no General Fund) - an increase of \$1.2 million from the current year.

Major Budget Proposals

Additional Examiners. The Governor proposes to augment the budget by \$416,000 to add 4 Examiner positions. The Department indicates this additional staff is needed to address homeland security, terrorism financing, and money laundering.

2180 Department of Corporations

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries.

The budget is proposed at \$31.7 million (no General Fund), an increase of \$996,000. No budget change proposals were submitted by the Administration.

Major Issue

Investigator Positions. The *Governor's Budget Summary* alludes to the 2006 audit of the Department's activities by the Bureau of State Audits. The Department eliminated all its Investigator positions in 2003-04 as part of its plan to reduce positions to comply with Control Section 4.10 of the 2003 Budget Act. Concerns have been raised over the reduction in consumer protection associated with the elimination of the investigation function. The audit should provide guidance concerning whether the Investigator positions should be reestablished in the Department's budget.

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor proposes \$477.5 million (\$16.8 million General Fund) in total expenditures for the department – a decrease of \$176.4 million. The large reduction is due to the dwindling amount of unexpended bond funds from the Emergency Shelter Trust Fund Act of 2002 (Proposition 46).

Major Budget Proposals

Office of Migrant Services. The Governor proposes to augment General Fund support by \$3.4 million (\$1 million ongoing) for reconstruction at two migrant center child care buildings and ongoing operational subsidies and routine repair costs.

Emergency Housing Assistance Program (EHAP) Cut. The Governor proposes an \$864,000 General Fund reduction for EHAP funding that reduces state support for the program to \$3.1 million. The EHAP provides funds for basic homeless shelter operating costs such as rent, utilities, and salaries of core administrative staff through minimum county allocations of \$30,000.

2320 Department of Real Estate

A primary objective of the Department of Real Estate is to protect the public in real estate transactions and provide related services to the real estate industry.

The Governor proposes \$43.3 million (no General Fund) in total expenditures for the Department – an increase of \$8.8 million.

Major Budget Proposals

Enforcement Program. The Governor proposes to augment funding by \$2.7 million and 33 positions in the Enforcement Program. The Department indicates this funding would address the significant and sustained growth in the licensee population since 1997-98.

Baseline Workload Adjustments. The Governor proposes to augment funding by \$2.3 million to fund cost increases due to increased volume of examinees, licensees, and related enforcement complaints. Funding would cover off-site examinations (\$647,000), credit card processing fees (\$36,000), postage (\$193,000), and Office of Administrative Hearing costs (\$1.5 million).

Information Technology. The Governor proposes four information technology (IT) augmentations:

- **Electronic Examinations.** The Department requests \$1.3 million and one position for year-one costs for a four-year IT project with a total cost of \$4.7 million.
- **Interactive Voice Response (IVR).** The Department requests \$133,000 and one position for year-one costs for a three-year IT project with a total cost of \$2.5 million.
- **IT Replacement.** The Department requests \$1.4 million for year-one costs for a four-year IT project with a total cost of \$2.7 million.
- **eLicensing Support Position.** The Department requests \$124,000 and one position to be dedicated to eLicensing development, and Web system enhancement and maintenance.

2400 Department of Managed Health Care

The mission of the Department of Managed Health Care (DMHC) is to help California consumers resolve problems with their Health Maintenance Organizations (HMOs) and to ensure a better, more solvent and stable managed health care system.

The Governor proposes \$41.5 million (no General Fund) in total expenditures for the department – an increase of \$5.5 million.

Major Budget Proposals

Enforcement Program. The Governor proposes to augment funding by \$3.8 million and 17 positions to conduct financial solvency oversight of risk bearing organizations and ensure prompt payment of health care provider claims.

GENERAL GOVERNMENT

8260 California Arts Council

The Arts Council serves the public through the development of partnerships with the public and private sectors and by providing support to the state's non-profit arts and cultural community.

The Governor proposes expenditures of \$5.1 million (\$1.1 million General Fund) and 19.3 positions for the Arts Council – an increase of \$1.8 million. The requested increase in expenditures is supported by higher revenue from Art License Plate sales and renewals. The Art License Plates (art-themed car license plates) have been around since 1993; however, SB 1213 (Chapter 393, Statutes of 2004) increased the cost of the plates – leading to an annual revenue increase of about \$2.8 million. The Council proposes to spend this additional revenue on the resumption of local-assistance grants to support the arts. General Fund support for local-assistance grants existed up through 2002-03, but was subsequently eliminated by budget cuts.

8380 Department of Personnel Administration

The Department of Personnel Administration (DPA) represents the Governor as the “employer” in all matters concerning the State employer-employee relations. The Department is responsible for all issues related to salaries, benefits, position classification, and training. For rank and file employees, these matters are determined through the collective bargaining process and for excluded employees, through a meet and confer process.

The Governor proposes expenditures of \$91.2 million (\$34.2 million General Fund) and 218 positions for DPA – an increase of \$5.5 million and 11 positions.

Major Budget Proposals

State Civil Service Classification and Selection Systems. The Governor proposes to augment funding by \$1 million (General Fund) to hire consultants to assess the current State Civil Service Classification and Selection System and develop a comprehensive strategy and business plan for implementation of reform. The Administration indicates the objective is “to improve the current systems so that they are flexible, dynamic, readily maintained, easily understood, meets legal requirements and provides the State with optimal return on human resources investment.”

Savings Plus Program. The Governor proposes to augment funding by \$1.7 million (special fund), increasing to \$3.2 million by 2010-11, to fund increased costs to pay the Third Party Administrator for the Savings Plus Program and the Alternative Retirement Program. The Third Party Administrator provides recordkeeping and trustee services to the State's 457, 401(k) and Part-time Seasonal and Temporary (PST) defined contribution retirement plans.

8620 Fair Political Practices Commission

The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974. The objectives of the Political Reform Act are to ensure that election campaign expenditure data is fully and accurately disclosed so that the voters may be fully informed and to inhibit improper financial practices, and regulate the activities of lobbyists and disclose their finances to prevent any improper influencing of public officials.

The Governor's budget funds 73.4 positions (including 14 new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$6,111	\$7,002	\$891	14.6
Reimbursements	7	0	-7	-100.0
Total, Fund Source	\$6,118	\$7,002	\$884	14.4

Key Budget Adjustment

Staffing Augmentation. The Governor's budget includes \$700,000 General Fund and 12.2 positions to meet workload requirements stemming from new Legislative mandates and the Political Reform Act. Caseloads have increased considerably in recent years: in the enforcement division, new cases nearly doubled from 892 in 2003 to 1751 in 2004. Additional revenue in the \$90,000 to \$120,000 range is expected from enforcement actions. The requested positions will be assigned to enforcement, investigations, legal counsel, legal support, and administrative support.

8885 Commission on State Mandates

The Commission on State Mandates is a quasi-judicial body that makes the initial determination of state mandated costs. The Commission is tasked to fairly and impartially determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state.

The Governor's budget funds 14 positions (with no new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$120,982	\$241,637	\$120,655	99.7
Motor Vehicle Account	1506	1551	45	3.0
Dept of Pesticide Regulation Fund	157	162	5	3.2
Total, Fund Source	\$122,645	\$243,350	\$120,705	98.4

Key Budget Adjustments

The Governor's budget includes no adjustments to the Commission on State Mandates program budget.

State Mandates Payments. The budget includes \$243 million (\$240 million General Fund) to local governments for mandate costs. That sum contains the following four distinct components.

- Payment of \$48.0 million for 35 known mandates.
- Payment of \$45.7 million for mandates still to be identified for payment in the budget year.
- An appropriation of \$50 million for mental health services to special education students (the AB 3632 mandate).
- An appropriation of \$98.1 million for the first year of a 15-year repayment cycle for past due state mandate claims.

The Legislature will carefully consider the cost estimates and policy implications of funding each mandate and closely scrutinize the repayment schedule to ensure it is accurate and complete.

State Mandate Suspensions. Twenty eight mandates are recommended for suspension in the budget year. The Legislature will carefully evaluate the cost savings and policy implications of suspending each of these mandates.

8940 Department of the Military

The Military Department is responsible for the command, leadership and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard is to provide military service supporting this state and the nation. The three missions of the California National Guard are to provide: (1) mission ready forces to the federal government as directed by the President, (2) emergency public safety support to civil authorities as directed by the Governor, and (3) support to the community as approved by proper authority. The Military Department is organized in accordance with federal Departments of the Army and Air Force staffing patterns. In addition to the funding that flows through the State Treasury, the Military Department also receives Federal Funding directly from the Department of Defense.

The Governor's budget funds 685.9 positions (including 17 new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$33,931	\$38,139	\$4,208	12.4
Armory Discretionary Improvement Account	150	146	-4	-2.7
Armory Fund	2,200	0	-2200	-100.0
Federal Trust Fund	60,304	62,024	1720	2.9
Reimbursements	15,754	10,979	-4775	-30.3
California Military Family Relief Fund	250	250	0	0.0
Total, Fund Source	\$112,589	\$111,538	-\$1,051	-0.9

Key Budget Adjustments

Armory Maintenance and Repair. The budget includes \$3.5 million to allow the Department of the Military to address their armory infrastructure needs by making repairs, modernizing facilities, and ensuring compliance with environmental laws and building codes. The Administration estimates a total deferred maintenance backlog of \$35 million in the state's armories. The Legislature may wish to have a detailed plan to address that entire workload prior to approving this request.

Establishment of an Internal Control Office (ICO). The budget includes \$182,000 General Fund and two auditor positions to allow the Military Department to establish an ICO. These positions would be used to provide an ongoing audit of the Military Department's fiscal systems and practices. The Legislature may wish to consider the results of a Bureau of State Audits report on Military Department fiscal practices and oversight (due out in the spring) before acting on this proposal.

Headquarters Complex Land Acquisition. The budget includes \$1 million General Fund to acquire a two-year purchase option on 30 acres of land at the former Mather Air Base to build a new headquarters complex. Expected costs for the whole project (design through construction) are \$98.5 million.

Homeland Security Augmentation. The budget includes \$1.7 million (reimbursements) and 7 three-year limited term positions for training and exercise contracts proposed by the Office of Homeland Security.

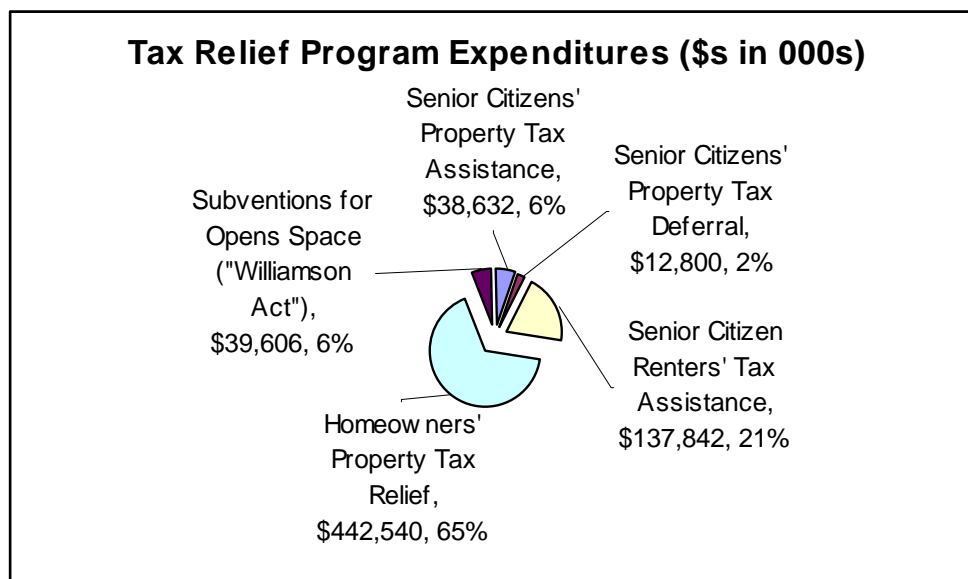
Issue

Position Control and Funding. Oversight hearings held by Budget Subcommittee #4 last year and subsequent media coverage has scrutinized departmental hiring practices and incoherent position establishment and funding. The Legislature may wish to explore those issues further to verify the best use of state funds and adherence to state personnel practices.

9100 Tax Relief

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. The state also provides the following tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. Tax relief is provided to individuals who agree to hold their land as open space under the Williamson Act of 1965 and through payments to cities and counties to help defray revenues lost as a result of tax relief programs.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$664,144	\$671,420	\$7,276	1.1
Total, Fund Source	\$664,144	\$671,420	\$7,276	1.1



Key Budget Adjustments

Program Expenditure Adjustments. The Governor's budget includes a net reduction of \$3.9 million General Fund in the budget year for adjustments to reflect estimated participation in the Senior Citizens' Property Tax and Renters' Tax Assistance Programs, the Senior Citizens' Property Tax Deferral Program, and the Homeowners' Property Tax Relief.

Williamson Act. The Governor's budget fully funds the Williamson Act subventions for open space preservation at \$39.6 million.

9210 Local Government Financing

Local governments receive a variety of subventions from the state for designated purposes such as health, welfare, and public safety programs. The state provides other assistance to local governments, primarily counties, through other direct programs contained in other items in the budget. For example, Health and Human Services has numerous programs where the state and counties jointly provide funding for services. State funding is also included in Public Safety for such issues as local crime labs and suppression of high intensity drug trafficking areas.

Local Government Financing expenditures are as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$1,333,865	\$262,857	-\$1,071,008	-80.3
Total, Fund Source	\$1,333,865	\$262,857	-\$1,071,008	-80.3

Programs				
Aid to Local Governments	\$1,205,331	\$60,148	-\$1,145,183	-95.0
Citizens' Option for Public Safety (COPS)	125,825	200,000	74,175	59.0
Special Supplemental Subventions	2,709	2,709	0	0.0
<hr/>				
Total, Programs	\$1,333,865	\$262,857	-\$1,071,008	-80.3

Key Budget Adjustments

Booking Fees. The budget proposes \$40 million in 2006-07 to offset a portion of the fees that cities and special districts must pay when they book suspects into county jails. Legislation is proposed to reform booking fee assessments and address city and special district concerns over cost calculations.

Rural and Small County Law Enforcement Grants. The budget fully funds the Rural and Small County Law Enforcement Grants subvention at \$18.5 million. This program provides \$500,000 in grants to 37 rural counties.

Juvenile Justice Crime Prevention Act (JJCPA). The budget includes JJCPA program funding of \$100 million—the programmatic equivalent of last year’s appropriation—but a \$74 million funding increase. Current year funding of \$26 million reflects a one-time adjustment to the annual allocation of JJCPA funds based on actual cash needs during the April 1, 2006 to March 30, 2007 grant cycle. This one-time adjustment saved \$74 million in the current year.

Disaster Subventions. The proposed budget includes disaster relief funding of \$1.6 million for subventions to communities affected by mudslides and severe storms in 2005. This funding is pursuant to legislation enacted in the 2005 session.

Citizen’s Option for Public Safety (COPS). The proposed budget maintains COPS program funding at \$100 million. This program provides discretionary funding on a per capita basis for local police departments and sheriffs for front line law enforcement (with a minimum guarantee of \$100,000), sheriffs for jail services, and district attorneys for prosecution.

Issue

Property Tax Administration Program. The Governor’s budget does not include funding for the Property Tax Administration Program (PTAP), a program last funded in 2004-05 at \$60 million. The Governor’s Budget Summary includes a statement that the Administration will work with the Legislature and local governments on alternatives to creating a new PTAP program in the 2007-08 budget. Considering the significant fiscal benefits to both local government and schools, the Legislature and counties will want to ensure that the level of service provided by local tax collectors is appropriate.

9800 Employee Compensation

The budget proposes \$382.5 million (\$203.2 million General Fund) to fund compensation and benefit adjustments for existing contract obligations for state employees. Also included in this augmentation is funding for medical staff in the California Department of Corrections and Rehabilitation as a result of a federal court order in the *Plata v. Schwarzenegger* lawsuit. No increased costs, or savings, are budgeted for bargaining units with expired or expiring agreements (the majority of bargaining unit agreements have expired or will expire before July 1, 2006).

9840 Augmentation for Contingencies and Emergencies

Each year, the Budget Act includes appropriation items in Item 9840 to be used to supplement departments' appropriations that are insufficient due to unanticipated expenses or emergency situations. There are three separate appropriations, one for each fund type - General, special, and non-governmental cost funds. These appropriations are allocated to other departments by the Department of Finance (with Legislative review) based upon the determination of need.

Funding for this item is as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$19,009	\$49,000	\$29,991	157.8
Other Unallocated Special Funds	10,974	15,000	4,026	36.7
Various Other Unallocated Non-Governmental Cost Funds	14,874	15,000	126	0.8
Total, Fund Source	\$44,857	\$79,000	\$34,143	76.1

Issue

The Governor's budget includes no adjustments to this item. Because this item is only in its second year as a replacement mechanism to the former Control Section 27.00 deficiency process, the Legislature will want to carefully consider whether the Item 9840 budget bill language should be amended to ensure that only true emergencies are funded through this item.

Budget Control Sections

Control Section 3.45 and Control Section 4.05: Unallocated Reductions. The Governor's Budget includes \$308 million in unallocated reductions to departments' state operations budgets: \$58 million through a one percent cut to salaries and wages budgets (and associated expenditures) via budget Control Section 3.45, and \$250 million in unspecified reductions through budget Control Section 4.05. These reductions can be separated into four major components.

- In the current year, \$50 million would be realized by working with Agency Secretaries to identify reductions. The Administration asserts that authority for this reduction is based on end of year savings which are normally not recognized until the subsequent year. This proposal would advance the recognition of those savings into the current budget year.
- In the budget year, \$100 million will be achieved through departmental savings to be identified. Authority is provided through Control Section 4.05.
- An additional \$100 million in the budget year, this time citing intent language included in Control Section 4.05 of the 2005 Budget Act. That language asserted that the intended use of those savings would be to increase the General Fund reserve by the end of 2006-07. As written in Control Section 4.05 of the proposed budget, savings will evidently not result in an increase to the General Fund reserve.
- A total of \$58 million in savings are anticipated by providing agency secretaries with target reduction goals of approximately one percent of departmental salaries and wages costs. Savings will be achieved primarily through eliminating vacancies, but also through nonsalary reductions to staff benefits and operating expenses.

These proposed reductions follow unallocated reductions made in Control Section 4.10 of the 2004-05 Budget Act and Control Section 4.05 of the 2005-06 Budget Act. Departments have been directed to reduce budgets by using layoffs, hiring freezes, procurement reductions, or other administrative means. Similar to last year, when more than \$75 million of unallocated reductions were rejected by the Legislature, the Budget Subcommittees may wish to carefully consider the impacts of these reductions *on a department by department basis* to ensure that legislative priorities are unaffected.

As shown below, unallocated reductions as a budget balancing mechanism have become an increasingly popular budget balancing mechanism with this Administration. However, as opposed to the information provided to the Legislature in budget change proposals, relatively little information is provided to the Legislature detailing the programmatic impact of unallocated reductions.

Year	Proposed Unallocated Adjustment	Comments
2004-05	\$58,000,000	From Control Section 4.10 of the 2004-05 Budget Act. One-hundred-and-fifty million was originally proposed.
2005-06	\$225,000,000	Includes: <ul style="list-style-type: none"> • Estimated \$75 million <i>ongoing</i> savings from department specific reductions (decreased from \$150 million originally proposed). The actual figure is expected from Finance in early February. • \$100 Million from Control Section 4.05 of the 2005-06 Budget Act • \$50 million included in Governor's 2006-07 proposed budget
2006-07	\$258,000,000	Includes: <ul style="list-style-type: none"> • \$200 million from proposed Control Section 4.05 • \$58 from proposed Control Section 3.45
Estimated Three- Year Total:	\$541,000,000	Total unallocated reductions proposed since 2004-05. Ongoing savings are estimated to be \$133 million of the total.

Control Section 3.65: Minimum Wage Adjustment

The budget proposes \$10.3 million General Fund and authority to augment six departments' budgets through a control section. This augmentation reflects a proposed statewide minimum wage increase and its impact on six departments who have a significant number of minimum wage-paid employees. The Governor has proposed legislation to make a 50-cent increase to the minimum wage (to \$7.25), effective September 1, 2006.

Control Section 4.06: Mid-Year Budget Correction Authority

The proposed budget bill includes a Control Section 4.06 which, if enacted, would enable the Governor to make mid-year reductions to General Fund appropriations. Reductions would be limited to 25 percent of a total appropriation and require notification to the Legislature within 30 days of the reduction occurring. The Administration asserts this authority was entrusted with the Governor prior to 1984.

Control Section 35.60: Budget Stabilization Account (BSA) Transfer to the General Fund.

The Administration proposes to allow the Director of DOF to make transfers from BSA to the General Fund reserve whenever s/he determines that a shortfall will occur in the General Fund reserve (with Legislative notification afterwards). Based on the poor condition of the General Fund reserve (\$153 million of a \$98 billion General Fund budget), if this Control Section is enacted, the Director has stated that he would immediately transfer \$460 million from the BSA to the reserve. This action would achieve a budget year reserve of \$613 million.

JUDICIAL BRANCH

0250 Judicial Branch

The Governor's budget proposes a total of \$3.4 billion (\$2 billion General Fund and \$1.4 billion other funds) for the Judicial Branch, an increase of \$139.7 million (\$224.1 million General Fund) or 4.3 percent above anticipated current-year expenditures.

Of the total amount, the budget proposes expenditures of \$371 million (\$317.7 million General Fund) for items related to the state judiciary. The state judiciary items include the Supreme Court (\$41.6 million), the Courts of Appeal (\$182.1 million), the Judicial Council – which includes the Administrative Office of the Courts (AOC) (\$101.9 million), the Judicial Branch Facility Program (\$32.6 million), and the California Habeas Corpus Resource Center (\$12.9 million). The proposed amount for the state judiciary is a decrease of \$3.4 million below estimated expenditures in the current year. The reduction is due primarily to a change in the way that reimbursements from the trial courts are reflected. Previously the budget had shown about \$14 million in reimbursements in the AOC budget from trial courts for services provided statewide for the trial courts. Now that the entire Judicial Branch is in one budget item, the Administration has eliminated the reimbursements and proposed budget bill language that would allow for the transfer of funds from the trial courts to the AOC, upon the approval of the director of the AOC, for recovery of the costs of administrative services provided to the courts.

The proposed total budget for the Trial Court Funding item is \$3 billion (\$1.7 billion General Fund and \$1.4 billion other funds). This amount is an increase of \$143 million, or 4.9 percent, from anticipated expenditures in the current year.

Summary of Program Requirements				
(dollars in thousands)	2002-03	2003-04	\$ Change	% Change
Supreme Court	\$40,837	\$41,571	\$734	1.8
Courts of Appeal	178,072	182,117	4,045	2.3
Judicial Council	110,914	101,902	-9,012	-8.1
Judicial Branch Facility Program	33,189	32,552	-637	-1.9
State Trial Court Funding	2,889,837	3,032,868	143,031	4.9
Habeas Corpus Resource Center	11,380	12,872	1,492	13.1
Total	\$3,264,229	\$3,403,882	\$139,653	4.3

Highlights

- An increase of \$57.5 million General Fund for the trial courts to restore a one-time reduction in the current year.
- An increase of \$31 million General Fund in baseline augmentations for the trial courts related to court security (\$18.7 million) and information technology (\$13.3 million).
- An increase of \$5.5 million General Fund to support facilities, staff, salaries, and benefits for up to 150 new judges phased in over a three-year period. This level of funding assumes one month of expenditures in the budget year.
- An increase of \$105.2 million General Fund for the trial courts based on a growth factor (4.7 percent) tied to the State Appropriations Limit (SAL).
- An increase of \$16 million General Fund for the trial courts by increasing the base upon which the SAL growth factor is calculated. This proposal adds judicial compensation, the assigned judges program, the Judicial Administration Efficiency and Modernization Fund, the Equal Access Fund, and a portion of the Trial Court Improvement Fund to the base upon which the growth factor adjustment is calculated.
- An increase of \$1.2 million General Fund for a growth factor increase equal to the SAL for the state judiciary beginning June 1, 2007. This represents one month funding in the budget year. This moves the entire Judicial Branch budget to the SAL growth factor methodology.
- An increase of \$1.3 million General Fund and 13 positions for the Habeas Corpus Resource Center to provide additional staff and resources to accept additional capital habeas corpus appointments from the California Supreme Court.
- An increase of \$3.3 million General Fund and 9 positions to upgrade current systems and equipment and to provide additional information technology support services for the Supreme Court, the Courts of Appeal, and the AOC.

Selected Issues

Trial Court Budget Tied to the State Appropriations Limit. As part of the 2004 Budget Act, the Legislature approved statutory changes which annually grow the budget for the state's trial courts by the same percentage as the State Appropriations Limit (SAL). The 2005 Budget Act was the first year that the trial court budget was increased by the growth factor as opposed to submission of individual Budget Change Proposals. The Governor's budget proposes an increase of \$105.2 million General Fund as a growth factor for the trial courts, based on an estimated increase of 4.7 percent in the State Appropriations Limit. In addition, the budget proposes \$16 million and trailer bill language to increase the base upon which the SAL for the trial courts is calculated, adding judicial compensation, the assigned judges program, the Judicial Administration Efficiency and Modernization Fund, the Equal Access Fund, and a portion of the Trial Court Improvement Fund to the base upon which the growth factor adjustment is calculated. The budget also proposes funding and trailer bill language to apply the SAL growth factor methodology starting June 1, 2007 for the Supreme Court, the Courts of Appeal, and the Administrative Office of the Courts. The Legislature may wish to consider the policy implications of the proposed expansions of the SAL and the appropriate level of oversight under the SAL process.

New Judgeships and Conversion of Subordinate Judgeships. The proposed budget includes \$5.5 million to support facilities, staff, salaries, and benefits for up to 150 new judgeships phased in over a three-year period beginning in April 2007. This level of funding assumes one month of expenditures in the budget year for 50 judgeships. The ongoing cost of 50 judges is \$35.8 million and the ongoing cost of 150 judges is \$107.3 million. The expenditure of these funds is restricted until legislation authorizing new judgeships is enacted. This proposal also supports the conversion of up to 161 judicial officers to judgeships, as the positions become vacant, funded from within existing resources.

Transfer of Trial Court Facilities to the State. Pursuant to the Trial Court Facilities Act of 2002, the process for the transition of court facilities from the county to the state was started in 2004-05. The transfer process has been slower than previously anticipated – originally, the AOC estimated that by the current year, between 100 and 140 facilities would be transferred to the state, to date only five buildings have transferred. The main reasons for the delays are due to seismic safety issues that must be dealt with prior to the transfer.

The AOC estimates that 90 percent of all courthouses require significant maintenance, repair, renovation, or replacement. Transfer of responsibility from counties to the state brings with it the responsibility to fund improvements to address years of neglect by the counties. Based on the current condition of buildings, the Judicial Council has identified a total need for 183 projects at a total estimated cost of \$9.8 billion over the next 10 years. Of the projects identified by the Judicial Council, 50 percent are new construction, 30 percent are renovations, and 20 percent are expansions. Some of the funding for the transition will come from fees that are deposited into the State Court Facilities Construction Fund -- approximately \$90 million has been transferred annually for the last few years into State Court Facilities Construction Fund. The Governor's ten-year Strategic Growth Plan proposes to provide General Obligation Bonds to fund some of the costs related to the transfer of court facilities. Specifically, the proposal includes General Obligation bonds for \$800 million in 2006 for the acquisition, design, construction, or renovation of trial court facilities, and another \$1 billion for the same purposes in 2010. Under this funding scenario, the Judicial Council would need to re-examine the projects to determine the appropriate priority based on the available funds.

The budget proposes \$38.6 million in expenditures from the State Court Facilities Construction Fund, which is less than the anticipated expenditures of \$47.1 million in the current-year. Additional funds for maintenance, renovation, expansion, and replacement of facilities will need to be appropriated once additional buildings are transferred from the counties. The budget estimates that the reserve for the State Court Facilities Construction Fund will be \$250 million at the end of the budget year, with an additional \$72.7 million that was loaned to the General Fund in the current year.

PUBLIC SAFETY

0685 Office of Homeland Security

The Office of Homeland Security (OHS) develops, maintains, and implements a statewide comprehensive homeland security strategy to prevent terrorist attacks within the state, reduce the state's vulnerability to terrorism, minimize damage from attacks that may occur, and facilitate the recovery effort. The OHS also serves as the state administering agency for federal homeland security grants and the state's primary liaison with the U.S. Department of Homeland Security.

Currently, the OHS is funded as part of the Office of Emergency Services (OES). The Governor's Budget reflects technical adjustments necessary for the OHS to be budgeted as an independent entity, effective January 1, 2007, if legislation is passed that establishes the Office in statute. However, the Administration has not proposed legislation to create OHS as an independent entity.

Total funding for the OHS in the budget year is \$365 million (\$359.7 million federal funds and \$5.2 million Antiterrorism funds). Of the total proposed funding, \$328 million is for homeland security grants to local jurisdictions, \$22 million is for homeland security grants to other state agencies, and \$12.4 million for support of the OHS. In the budget display, half of the funding appears in the OES budget item and half in the newly created OHS budget item.

Historically, total funding for Homeland Security grants to California for federal fiscal year 2003 was \$339.9 million, \$364.7 million for federal fiscal year 2004, and \$314.7 million in federal fiscal year 2005. The U.S. Department of Homeland Security (DHS) indicates that approximately \$1.8 billion will be available nationally for homeland security grants in federal fiscal year 2006. Because the state is currently in the process of applying for these grants, which are available for expenditure over three years, the funding is not included in the January budget. In previous years, the Department of Finance has submitted a Finance Letter in the spring once the grant awards have been made by the DHS.

Highlights

Antiterrorism Funds. The budget proposes \$5 million from the Antiterrorism Fund to fund a new program to assist local mass transit entities in improving the security infrastructure. The Antiterrorism Fund was created by Chapter 38, Statutes of 2002 (AB 1759, Wesson) following the terrorist attacks on September 11, 2001. The fund receives revenues from the California memorial license plates, which are estimated at \$1.2 million annually. Money from the Antiterrorism Fund has not been appropriated in past years, and the estimated available balance is \$5.4 million. The ongoing grant program would be \$1 million annually. The proposal requires trailer bill language to authorize OHS to use the entire Antiterrorism Fund solely for antiterrorism purposes. Under current statute, the fund is allocated (upon appropriation by the Legislature) one half to the Office of Criminal Justice Planning (OCJP), solely for antiterrorism activities, and one half to other agencies for antiterrorism activities.

Homeland Security Expenditures. Since 2000, the state has received over \$1 billion in federal homeland security funds that are administered by the OHS and by the Department of Health Services. The Table below highlights the funds administered by OHS since 2000.

OHS Federal Homeland Security Grants <i>Federal Fiscal Years 2000-2005</i>			
Federal Fiscal Year	Local Governments	State Agencies	Total
2000 & 2001	\$12,224,750	\$2,608,250	\$14,833,000
2002	19,965,000	4,866,000	24,831,000
2003	186,960,190	39,521,300	226,481,490
2004	282,038,527	35,091,400	317,129,927
2005	263,508,216	30,661,056	294,169,272
Totals	\$764,696,683	\$112,748,006	\$877,444,689

Last year the LAO noted that the state lacked a comprehensive plan on homeland security, there was no statewide reporting on homeland security grants, and that there had been some delays in expending the funds. The Legislature provided additional accounting and fiscal tracking positions at the Office of Emergency Services (OES) and at OHS, and required OHS to work with the Department of Health Services to develop a statewide strategic plan by February 1.

0690 Office of Emergency Services

The primary purpose of the Office of Emergency Services (OES) is the coordination of emergency activities to save lives and reduce property losses during disasters and to expedite recovery from the effects of disasters.

The budget proposes total expenditures of \$1.1 billion, a reduction of \$247.1 million or 19 percent from estimated current year expenditures. The major reasons for the reduction include creation of a separate budget item for the Office of Homeland Security, effective January 1, 2007 (\$180.8 million), an adjustment to reflect updated disaster assistance payments (\$17.4 million), and a reduction in federal criminal justice grants (\$16.9 million).

Summary of Programs				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Support of Office of Homeland Security	\$0	\$170,217	\$ 170,217	100.0
Mutual Aid Response	20,557	16,522	(4,035)	-19.6
Plans and Preparedness	363,548	35,693	-327,855	-90.2
Disaster Assistance	635,609	616,463	-19,146	-3.0
Criminal Justice Projects	242,421	198,329	-44,092	-18.2
California Anti-Terrorism Info Center	6,700	6,811	111	1.7
Executive and Administration	7,140	7,259	119	1.7
Distributed Administration	(6,234)	(6,338)	-104	0.0
Support of Other State Agencies	-	11,000	11,000	0.0
Office of Homeland Security	33,327	-	-33,327	-100.0
Total	\$1,303,068	\$1,055,956	-\$247,112	-19.0

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<i>State Operations</i>				
General Fund	\$46,200	\$40,771	-\$5,429	-11.8
Federal Funds	63,280	47,774	-15,506	-24.5
Reimbursements	2,671	2,671	0	0.0
Other Funds	3,240	3,302	62	1.9
Subtotal, State Operations	\$115,391	\$94,518	-20,873	-18.1
<i>Local Assistance</i>			0	0.0
General Fund	\$95,493	\$83,804	-11,689	-12.2
Federal Funds	1,066,961	849,961	-217,000	-20.3
Reimbursements	6,576	5,571	-1,005	-15.3
Other Funds	18,647	22,102	3,455	18.5
Subtotal, Local Assistance	\$1,187,677	\$961,438	-226,239	-19.0
Total	\$1,303,068	\$1,055,956	-\$247,112	-19.0

Highlights

Sexual Assault Felony Enforcement Teams. The budget proposes \$6 million General Fund for Sexual Assault Felony Enforcement Teams throughout the state. This program will provide grant funds to local jurisdictions to support efforts to investigate, monitor, and prosecute habitual sexual offenders. The proposal would increase the program by an additional \$2 million in 2007-08 for an ongoing cost of \$8 million.

Assistance for Victims of Crimes Committed by Parolees. The budget includes \$1.1 million from the Victim-Witness Assistance Fund for grants to victim-witness service centers to assist

victim-witnesses during parole revocation hearings. The assistance would include coordination of victim witness attendance, counseling and referral services, and assistance in obtaining benefits. The purpose of the fund is to provide local assistance grants for victim counseling centers and prevention programs. The request indicates that the benefit from this program will include ensuring that more victim-witnesses are willing to participate in parole revocation proceedings, improving the ability of the Board of Parole Hearings to receive testimony and consider that testimony in its decision whether to revoke the parole status of a parolee, and improving public safety and decreasing victimization by sending more parolees back to state prison.

0820 Department of Justice

It is the responsibility of the Attorney General to uniformly and adequately enforce the laws of the State of California. Under the direction of the Attorney General, the Department of Justice (DOJ) enforces state laws, provides legal services to state and local agencies, and provides support services to local law enforcement agencies.

The budget proposes a total of \$745 million for the DOJ, an increase of \$51.6 million, or 7.4 percent from the revised current year budget.

Summary of Program Requirements				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Directorate and Admin	\$28,434	\$29,185	\$751	2.6
Distributed Directorate and Admin	(28,434)	(29,185)	-751	0.0
Legal Support and Tech	48,804	48,442	-362	-0.7
Distributed Legal Support and Tech	(48,804)	(48,442)	362	0.0
Executive Programs	15,287	15,495	208	1.4
Civil Law	124,471	122,060	-2,411	-1.9
Criminal Law	100,140	103,624	3,484	3.5
Public Rights	80,399	78,612	-1,787	-2.2
Law Enforcement	183,579	213,316	29,737	16.2
Criminal Justice Info Services	161,727	175,629	13,902	8.6
Gambling	15,503	18,997	3,494	22.5
Firearms	12,246	17,261	5,015	41.0
Total	\$693,352	\$744,994	\$51,642	7.4

Highlights

Gang Suppression Enforcement Teams. The budget proposes \$6.5 million General Fund and 33 positions to develop four new Gang Suppression Enforcement Teams (GSETs). In 2007-08, an additional two teams would be established bringing the total ongoing program cost to \$9.8 million and 50 positions. Teams would be located statewide to provide leadership to local law enforcement in suppressing multi-jurisdictional gang-related crimes.

California Methamphetamine Strategy (CALMS) Program. The budget proposes an augmentation of \$6 million General Fund and 29.6 positions for the CALMS Program. This

funding would provide resources for three new teams in regional offices to conduct investigations involved in dismantling clandestine methamphetamine labs.

Special Crimes Unit. The budget proposes \$1.3 million General Fund and 12.6 positions to increase investigation activities within the Special Crimes Unit, which handles the investigation and prosecution of individuals and businesses that participate in complex financial and identity theft crimes.

Tribal Gaming Compliance and Enforcement. The budget proposes an augmentation of \$3.3 million, comprised of \$367,000 General Fund and \$3 million Indian Gaming Special Distribution Fund, and 18 positions to address increased inspection and investigative workload related to existing and newly negotiated/amended Tribal Gaming Compacts. This proposal includes an increase of \$1.9 million in 2007-08 for a total ongoing cost of \$5.2 million. The budget also proposes an increase of \$1.7 million for the Gambling Control Commission related to licensing and audit workload, and field inspections.

Firearms Database Workload. The budget proposes an augmentation of \$5 million General Fund and 32.3 positions for handling workload associated with DOJ Armed Prohibited Persons System (APPS) database, which was developed pursuant to Chapter 944, Statutes of 2001. The APPS database cross-references persons who possess or own a firearm and have been subsequently prohibited from owning or possessing a firearm, including persons convicted of a felony or violent misdemeanor, persons who have been committed to a mental health treatment facility, and persons with active restraining orders. This augmentation will allow the DOJ to review and analyze records in the APPS database to identify persons prohibited from possessing a firearm or dangerous weapon, and organize and lead state and local task forces to investigate, arrest, and prosecute armed prohibited criminals.

California Law Enforcement Telecommunications System (CLETS) Network Encryption. The budget includes \$2 million (\$903,000 General Fund and \$1.1 million Motor Vehicle Account) and 2.8 positions to develop and implement network encryption of CLETS, which is a statewide telecommunications network available to all California law enforcement and criminal justice agencies. CLETS routes all criminal justice information between federal, state, and local law enforcement agencies, and provides instant access to information such as wanted persons, missing and unidentified persons, criminal offenders, parolees, stolen vehicles, stolen firearms, vehicle registration, driver records, and registered sex offenders. This augmentation will help ensure that data is protected as it transmits through public telecommunications lines and that the state is in compliance with network encryption as required by federal security policy.

0855 Gambling Control Commission

The California Gambling Control Commission (GCC) was established by Chapter 867, Statutes of 1997 (SB 8, Lockyer). The five-member commission is appointed by the Governor subject to Senate confirmation. The GCC is responsible for setting policy, issuing licenses, administering, adjudicating, and regulating all matters related to controlled gambling in California.

In addition, pursuant to the Tribal Gaming Compacts and Executive Order D-31-02, the GCC is responsible for (1) administering the gaming license process, (2) controlling, collecting and accounting for all gaming device license fees, (3) making findings of suitability regarding key

employees of tribal gaming operations, and (4) ensuring the allocation of gaming devices among California's tribes does not exceed the allowable number in the compacts. Included with this responsibility is serving as Trustee for the Revenue Sharing Trust Fund and Administrator of the Special Distribution Fund.

The budget proposes \$137.4 million (\$725,000 General Fund) for the GCC which is \$49.2 million less than anticipated expenditures in the current year. The primary reason for the reduction is that pursuant to Chapter 720, Statutes of 2005, the Legislature transferred \$50 million in the current year from the reserve of the Indian Gaming Special Distribution Fund to the Indian Gaming Revenue Sharing Trust Fund (IGRSTF) in order to change the timing of the payments to nongaming tribes from the IGRSTF. The change ensures that each eligible non-gaming tribe receives a quarterly payment of \$275,000, rather than the bulk of the funding coming at the end of the year.

Of the total funding, \$10.9 million is proposed for state operations, an increase of \$2.6 million above estimated current-year expenditures. The primary reason for the increase is related to a proposal to add new funding based on compact workload (highlighted below). The budget also proposes \$126.5 million for local assistance – primarily for making payments to non-gaming tribes from the IGRSTF and for local mitigation efforts.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
General Fund	\$ 0	\$ 725	\$ 725	0.0
Indian Gaming Revenue Sharing Trust	97,445	96,500	-945	-1.0
Indian Gaming Special Distribution Fund	86,332	37,357	-48,975	-56.7
Gambling Control Fund	2,180	2,854	674	30.9
Total	\$185,957	\$136,711	-\$49,246	-26.5

Highlight

Licensing, Audit and Field Inspection Workload. The budget proposes \$1.7 million (\$359,000 General Fund, \$911,000 Indian Gaming Special Distribution Fund, and \$396,000 Gambling Control Fund) and 14.5 positions to augment licensing and audit workload, and to establish a field inspection program. Specifically, the budget proposes 5.5 positions to meet the commission's licensing workload under the gaming compacts and the Gambling Control Act; 6 positions related to audit functions; and 3 positions to establish a field inspection program pursuant to the new and amended gaming compacts.

In addition, the budget proposes \$732,000 (\$366,000 General Fund and \$366,000 Indian Gaming Special Distribution Fund) to establish 5 positions on a two-year limited term basis to develop a Technical Services Program, Research and Testing Unit. The commission indicates that the primary purpose for the unit is to provide technical support, guidance, and direction to the gaming device field inspection program. Under the proposal, the Technical Services Program will test and inspect new game platforms, new gaming devices, gaming device modifications, and associated gaming equipment; develop and review technical standards; and provide technical support to the new field inspection program, the audit and compliance activities of the California Gambling Control Commission, and the investigation activities of the Division of Gambling Control within the Department of Justice.

1870 California Victim Compensation and Government Claims Board

The California Victim Compensation and Government Claims Board, formerly known as the Board of Control, consists of three members, the Director of General Services who serves as the chair, the State Controller, and a public member appointed by the Governor. The primary functions of the Board of Control are to: (1) compensate victims of violent crime and eligible family members for certain crime-related financial losses; (2) consider and settle all civil claims against the state; (3) provide equitable travel allowances to certain government officials; (4) respond to bid protests against the state alleging improper or unfair acts in the procurement of supplies and equipment; and (5) provide reimbursement of counties' expenditures for special elections.

The budget proposes \$136.2 million, which is a decrease of \$1.6 million, or 1.1 percent, from anticipated current-year expenditures. Of the total proposed expenditures, \$126 million is proposed for the Citizens Indemnification Program, which indemnifies those citizens who are injured and suffer financial hardship as a direct result of a violent crime.

The Claims Board is primarily funded from the Restitution Fund, with total expenditures of \$102.7 million proposed from the Restitution Fund, and \$32.2 million from federal funds.

5225 Department of Corrections and Rehabilitation

Effective July 1, 2005, all the agencies that previously reported to the Youth and Adult Correctional Agency were consolidated in to the Department of Corrections and Rehabilitation (CDCR) pursuant to the Governor's Reorganization Plan 1 of 2005 and Chapter 10, Statutes of 2005 (SB 737, Romero).

The mission of the California Department of Corrections and Rehabilitation (CDCR) is to improve public safety through evidence-based crime prevention and recidivism reduction strategies. The CDCR is organized into twelve programs: Corrections and Rehabilitation Administration; Corrections Standards Authority; Juvenile Operations; Juvenile Education, Vocations, and Offender Programs; Juvenile Parole Operations; Juvenile Health Care Services; Adult Operations; Adult Parole Operations; Board of Parole Hearings; Community Partnerships; Adult Education, Vocations, and Offender Programs; and Correctional Healthcare Services.

The budget proposes total expenditures of \$8.1 billion (\$7.8 billion General Fund and \$241 million other funds) and 60,966 positions for the CDCR. This represents an increase of \$364 million (\$383 million General Fund), or about 4.7 percent, and 2,357 positions above the revised 2005-06 budget.

Summary of Program Requirements				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Administration	\$208,681	\$243,649	\$34,968	16.8
Corrections Standard Authority	263,196	244,514	-18,682	-7.1
Juvenile Operations	178,589	176,337	-2,252	-1.3
Juvenile Education and Programs	138,523	179,404	40,881	29.5
Juvenile Parole	40,468	38,734	-1,734	-4.3
Juvenile Healthcare	56,135	62,119	5,984	10.7
Adult Operations	4,713,759	4,868,653	154,894	3.3
Adult Parole	717,983	693,504	-24,479	-3.4
Board of Parole Hearings	85,416	89,493	4,077	4.8
Community Partnerships	1,858	7,727	5,869	315.9
Adult Education and Programs	236,608	271,376	34,768	14.7
Adult Healthcare	1,052,898	1,182,755	129,857	12.3
Total	\$7,694,114	\$8,058,265	\$364,151	4.7

Highlights & Selected Issues

Adult Population Increases. The budget increases the estimates for the adult prison and parolee populations for both the current year and the budget year. For the current year, the proposed budget increases the average daily inmate population from 165,249 in the 2005 Budget Act to 167,630 and the average daily parole population from 110,335 in the 2005 Budget Act to 115,524. For 2006-07, the budget assumes that the average daily inmate population increases to 171,497 and the average daily parole population increases to 116,220. The fiscal impact of these population increases is \$48.4 million General Fund in 2005-06 and \$123.2 million General Fund in 2006-07.

Capacity Building Proposals. CDCR's current inmate population of approximately 168,000 is an all-time high and the population is projected to increase further in the budget year. The budget makes no population or savings adjustments for implementation of inmate and parole programs as it has in last few years. The CDCR indicates that the continuing growth of the inmate population is having significant impacts on its ability to safely house the inmate population. The CDCR indicates that it is currently managing the population increase through the activation of the new Kern Valley State Prison, as well as implementing measures such as the "Right Prison, Right Mission" initiative to make better use of space, in addition to using gyms, day rooms, and other program space to house inmates. However, due to population pressures, the Administration has proposed several capacity building proposals in the budget and the Governor's Strategic Growth Plan, as follows.

- The budget includes a proposal to contract with providers to build contract bed capacity of up to 8,500 beds, including 4,000 male beds and 4,500 female beds for the 2007-08 fiscal year. The proposal for female beds is part of a Gender Responsive Strategy which would provide alternative placement strategies for certain female offenders. The state currently contracts for approximately 5,300 community correctional facilities (CCFs) and about 1,200 other alternative beds such as community corrections reentry centers.
- The Governor's Strategic Growth Plan proposes \$12 billion in local jail construction over 10 years. The plan envisions \$4 billion in state General Obligation Bonds for local jails, \$4 billion in local matching funds, and \$4 billion in local lease revenue bonds secured by revenues from the state for housing certain inmates, including parole violators and inmates within 90 days of release from CDCR.
- The Strategic Growth Plan also proposes \$1.1 billion in General Obligation Bonds to build new state prison or juvenile facilities. This funding would be part of the 2010 public safety bond.
- The Governor's Budget Summary indicates that, during the spring budget process, the Administration expects to request authorization for projects that will address housing for inmates in mental health programs, consistent with the *Coleman v. Schwarzenegger* litigation. Last year, the Legislature rejected a proposal to build 3 mental health facilities to house 6,000 inmates at a cost of \$1.4 billion to construct.

Budget for the CDCR Continues to Grow. Over the last several years, the budgets for the departments that now make up the CDCR have grown significantly. Major factors that have been driving the increase in expenditures include: court cases in areas such as inmate healthcare, mental health treatment, and the parole revocation process; increased pay for correctional staff; and increases in the inmate and parolee populations. Projected expenditures of \$7.7 billion in the current-year represent an increase of over 44 percent compared to expenditures of \$5.3 billion for the departments in 2000-01. If expenditures continue to increase at the same pace, the budget for CDCR will increase to nearly \$11.1 billion over the next five years. To the extent that the inmate population continues to increase, the costs for operating the system will continue to increase.

Average Costs for Inmates and Wards Increases. For adults, the average cost per inmate has increased 35 percent, from \$25,307 in 2000-01 to an estimated \$34,150 in the current year. During this time, the adult inmate population has grown by about 4 percent, from 161,497 to an estimated 168,583 by the end of the current year. Over the next five years, the CDCR is projecting that the population growth rate will nearly double, resulting in 181,474 adult inmates by June 30, 2011.

For the juvenile population, expenditures have increased while the population has decreased. The juvenile population has decreased from over 10,000 in 1996 to an estimated 2,680 by the end of the budget year. In recent years, the average cost per ward has increased significantly. In 2000-01 the estimated average cost per ward was \$51,000, while in the budget year that average cost per ward is estimated to increase to approximately \$150,000. The cost per ward will continue to increase as the population declines and the costs of the *Farrell* Remedial Plans roll out over the next several years.

Adult Local Assistance Funding Increases. The proposed budget includes an augmentation of \$85.1 million General Fund in 2005-06 and \$11.9 million General Fund in 2006-07 to reimburse local entities for the housing and non-routine medical costs of parolees who are detained for parole violations. This funding includes a one-time, lump-sum payment to local entities of \$55.4 million General Fund for outstanding claims from prior years and \$29.7 million General Fund for a projected shortfall in the local assistance budget in 2005-06. The need in the budget year is projected to decrease to \$11.9 million as a result of adding staff to audit the claims received from local entities and expanding reception center capacity. The increased local assistance costs have resulted primarily from offenders staying at local facilities for longer periods. Despite a decrease in the time parolees are held prior to their revocation hearings, the time that parolees are housed in local facilities has increased due to an inability of reception centers to process inmates as quickly as needed.

Basic Correctional Officer Academy (BCOA) Expansion. The CDCR estimates 2,000 correctional officer vacancies in 2005-06 and 4,000 vacancies in 2006-07. The budget proposes \$25.4 million General Fund in 2005-06 and \$54.5 million General Fund in 2006-07 to expand the number of cadets being trained and for the establishment of a temporary offsite academy at the former Northern California Women's Facility (NCWF). Under this proposal, the CDCR would adjust the size of the BCOA on an annual basis, as necessary, and explore options to establish a permanent academy in Southern California to replace the temporary academy at NCWF.

Rehabilitation Programs. The 2005 Budget Act included \$7.5 million General Fund, growing to \$30 million General Fund in 2006-07 for evidence-based inmate and parolee programming enhancements. The proposed budget includes a plan to spend the \$7.5 million in 2005-06, and for an increase in spending to \$52.8 million in 2006-07, growing to approximately \$95.3 million by 2008-09. For 2006-07, the plan proposes the following:

- \$21.1 million for enhancements to inmate education and vocational education programs.
- \$7.7 million for community partnerships.
- \$7.8 million for parole services expansions including expansion of the Residential Multi-Service Centers.
- \$9.9 million for institution based rehabilitative and treatment programs including increasing visitation days, and opening a substance abuse treatment program at Kern Valley State Prison.
- \$6.2 million for research to assess the effectiveness of correctional programs.

Inmate Dental Services Program. The budget proposes \$21.5 million and 326 positions to implement the first phase of major changes in the Inmate Dental Services Plan in order to meet the stipulated agreement from the *Perez v. Hickman* class action lawsuit. The implementation of the agreement will take place over six years. This request will provide funding for the first three years of implementation, requesting \$8.2 million and 84 position in 2007-08 and \$8.8 million and 187 positions in 2008-09. The total ongoing costs after the first three years will be \$33.6 million and 597 positions. Of the 326 requested positions in the budget year, 61 are dentist positions, 163 are dental assistant positions, 28 are dental and management positions for quality management teams, and 37 positions are for clerical support.

Adult Healthcare Services Increase. The budget proposes \$68.1 million to provide funding for healthcare services to continue compliance with the *Plata v. Schwarzenegger* court order. The funding includes augmenting the baseline budget for contract medical by \$42.7 million, pharmaceuticals by \$16.4 million, and medical guarding by \$9.1 million. The Administration indicates that this is the amount necessary to mend the ongoing budgetary shortfall in the CDCR budget. There is no current-year component for this request.

Electromechanical Doors. The budget proposes \$3 million in 2006-07 and \$7.3 million in 2007-08 to continue the electromechanical security door operating and locking system repair project which was initially approved in 2001-02.

Global Positioning System Expansion. The budget proposes \$5.1 million General Fund to add 500 Global Positioning System (GPS) devices to track and monitor high risk parolees. This is part of a four-year plan to add 2,000 GPS devices, bringing the total number of GPS units available for parolee monitoring up to 2,500 by 2009-10.

Electronic In-Home Detention. The budget proposes \$1.2 million to add 500 electronic monitoring devices.

Parole Hearing Workload. The budget proposes \$9.6 million in the current year and \$12.7 million in the budget year for costs related to the *Valdivia* Remedial Plan. In addition, the budget proposes \$1.3 million in the budget year to reduce the backlog in lifer hearings.

Farrell Ward Safety Remedial Plan. The budget proposes \$5.1 million in the current year and \$47.5 million in 2006-07 to fund the Ward Safety and Welfare Remedial Plan submitted to the court in November 2005. The ongoing resources associated with implementing this plan is expected to be \$93.8 million by 2009-10. In the budget year, the funding will be used to target 20 living units, or 25 percent, of the Division of Juvenile Justice's ward population to receive the enhanced staffing and training to meet the requirements of the Remedial Plan filed with the court. The budget does not contain any proposals for broader juvenile justice reform issues that are not a part of the *Farrell* lawsuit.

Farrell Juvenile Healthcare Remedial Plan. The budget proposes \$7.5 million to implement the Healthcare Remedial Plan submitted to the court in September 2005. The proposal assumes a two-year roll out for the reforms with an additional \$1.5 million in 2007-08, with ongoing costs of \$9.1 million.

Implementation of the Department of Corrections Reorganization. The Corrections Reorganization was proposed as a way to make the agency more streamlined, efficient, and accountable without increasing the department's budget. The name of the department was also changed to the Department of Corrections and Rehabilitation to emphasize the goal of increasing public safety through rehabilitation. A central piece of the reorganization was the development of a new Strategic Plan for the agency in January 2005 that sets forth a timeline for a series of actions designed to ensure that the agency meets identified objectives consistent with the new Vision, Mission, and Values of the agency. The Legislature may wish to review the status of the implementation of the reorganization, including its impact on the agency budget, the implementation of evidence-based rehabilitation programs, and implementation of the objectives set forth in the department's strategic plan.

Incarceration of Undocumented Felons. The budget assumes \$107.1 million in federal State Criminal Alien Assistance Program (SCAAP) funding for 2005-06, which is \$28.6 million more than was previously assumed. For 2006-07, the budget assumes that California will receive \$114.1 million in federal SCAAP funding.

8120 Commission on Peace Officer Standards and Training

The Commission on Peace Officer Standards and Training (POST) is responsible for raising the competence level of law enforcement officers in California by establishing minimum selection and training standards, and improving management practices. The proposed budget for POST is \$57.5 million from special funds and reimbursements, an increase of \$1.3 million, or 2.3 percent from estimated current year expenditures. The budget proposes transfer of \$14 million from the Driver Training Penalty Assessment Fund to the Peace Officers' Training Fund, pursuant to Control Section 24.10. The increase in the budget from the current-year is primarily due to a price increase for the department (\$746,000), and for a proposal to provide a one-time augmentation of \$350,000 to develop Web-based training, performance and performance support tools to replace CD-ROM training courses that are becoming obsolete.

Summary of Program Requirements				
(dollars in thousands)	2001-02	2002-03	\$ Change	% Change
Standards	\$5,082	\$5,203	\$121	2.4
Training	29,180	30,333	1,153	4.0
Peace Officer Training	21,944	21,944	0	0.0
Administration	5,618	5,772	154	2.7
Distributed Administration	(5,618)	(5,772)	-154	0.0
Total	\$56,206	\$57,480	\$1,274	2.3